



PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF ASSEMBLY

for the

FISCAL YEAR ENDED

31 MARCH 1991

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ST. JOHN'S, NEWFOUNDLAND



GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
OFFICE OF THE AUDITOR GENERAL

31 January 1992

The Honourable Thomas Lush
Speaker
House of Assembly

Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Annual Report for the fiscal year ended 31 March 1991.

Respectfully submitted,

C. R. Hart, C.A.
Auditor General (Acting)



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CHAPTER

1

AUDITOR GENERAL'S OVERVIEW



Chapter

1

Auditor General's Overview

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Auditor General's Overview

1.1

Introduction

A. The Auditor General Act Requirements

This Report has been prepared in compliance with the requirements of the Auditor General Act (the Act) which was passed by the House of Assembly and given Royal Assent on 31 October 1991. The Auditor General Act is reproduced in Appendix V of this Report.

In accordance with the provisions of the Auditor General Act, this Report outlines significant matters noted during the course of auditing the Public Accounts, Crown corporations and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

B. Auditing Standards

Our examination was performed in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

C. Focus on Shortcomings

This Report, by its nature, focuses primarily on shortcomings such as systems weaknesses, accounting and financial control deficiencies and incidents of noncompliance with legislation. We do, however, attempt to balance the Report by commenting on positive findings as a result of our audits and we also indicate where Government, its departments and agencies have made improvements in areas referred to in our previous Reports.

It is important to acknowledge that in this Report we include only matters which came to our attention as a result of our various audits and which, in our view, were significant enough to report to the House of Assembly. We also recognize that because of the size and complexity of Government operations, systems changes or improvements often take a number of years to complete.

Format of the Report

1.2

Format of the Report

This Report contains seven Chapters. A brief description of the contents of each follows:

Chapter 1 Auditor General's Overview

This Chapter summarizes our comments, highlights and recommendations, presents an overview of the role and responsibilities of the Office of the Auditor General and outlines the auditing standards followed by the Office.

Chapter 2 Accountability, Financial Management and Control, and Reporting overnment

This Chapter provides a summary of the issues dealing with Accountability, Financial Management and Control, and Reporting by Government. The items included here are dealt with in more detail in other sections of this Report. This Chapter includes summaries of comments and recommendations made in our previous Reports. This year we also include a suggested framework for Accountability, Financial Management and Control, and Reporting by Government.

Chapter 3 Comments on Government Wide Reviews

The comments in Chapter 3 result from our audit of the Financial Statements of the Province and from our reviews of certain systems and procedures which have a government wide impact or which impact on a number of entities.

Chapter 4 Comments on Departmental Audits

The comments in Chapter 4 pertain to our audit observations and recommendations resulting from audits of specific departments. The departmental audits are listed in Appendix I.

Chapter 5 Comments on Crown Corporations and Other Entities

The comments in Chapter 5 pertain to our audit observations and recommendations resulting from audits of Crown corporations and other entities. The Crown corporations and other entities audited by this Office are listed in Appendix II while those audited by Private Sector Auditors are listed in Appendix III.

Auditor General's Overview

Chapter 6 Comments on Matters Referred to in Prior Years' Reports

Chapter 6 addresses the action taken or planned on recommendations and observations contained in prior years' Reports.

Chapter 7 General Matters

Chapter 7 addresses a number of general matters including the independence of the Office, the Office goals, information on the audit responsibilities and activities of the Office, its professional activities and information on the Public Accounts Committee.

Appendices

- I. Departmental Audits performed by the Auditor General
 - II. Attest and Compliance Audits of Crown Corporations and Other Entities Performed by the Auditor General
 - III. Crown Corporations and Other Entities Audited by Private Sector Auditors
 - IV. The Financial Administration Act, 1973, Part V
 - V. Auditor General Act
-

1.3 Highlights

Introduction

The following is a concise outline of some of the more significant matters dealt with in this Report. References are included to permit ready access to the detailed commentary for each of these matters located in various sections of the Report.

Highlights

Major Observations and Recommendations

1. Comments on the Financial Statements of the Province

A. Basis of Accounting (Part 3.2)

The Province's financial statements (The Public Accounts) except for the Statement of Assets and Liabilities and the Statement of Excess of Liabilities Over Assets are prepared on a cash basis of accounting modified in accordance with The Financial Administration Act, 1973.

We recommend that the Province give serious consideration to adopting the accrual basis of accounting. In our view this would considerably improve financial reporting.

We note that this is a repeat of a recommendation which we made in our 1990 Report.

B. Provincial Pension Plans (Part 3.10)

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its employees and those of its agencies, boards and commissions and members of its Legislature.

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants has issued recommendations on accounting for employee pension obligations. In the 1990-91 Public Accounts of the Province the unfunded employee pension liability of \$1.9 billion, based on the most recent actuarial valuation, was recorded in the Statement of Assets and Liabilities. In prior years, this liability was disclosed in the notes to the financial statements. However, in the 1990-91 Public Accounts, no provision is made for the increase in liability since the date of the last actuarial valuation. Also, the Statement of Revenue and Expenditure does not reflect the actual value of pension benefits earned by employees during the year.

Auditor General's Overview

We recommend that, in conjunction with the Province's review relating to the adoption of the accrual basis of accounting, it also consider the other recommendations of PSAAC that require the value of pension benefits earned by employees during the year be recorded in the Statement of Revenue and Expenditure. We also recommend that the Province record the increase in liability since the last actuarial valuation in the Statement of Assets and Liabilities.

2. Audit of Transfer Payments (Parts 3.4, 3.5, 3.6, 4.10, 4.13, 4.15, 5.5, 5.6, 5.7, 5.8)

The Government of Newfoundland and Labrador provides funding through grants or other forms of assistance to various organizations in order to provide services and programs throughout the Province. Hospitals, school boards, colleges and municipalities are some examples of such organizations. The departments administering the major amount of transfer payments include Health, Education, and Municipal and Provincial Affairs. Transfer payment funding amounted to approximately \$1.2 billion for these departments in the 1991-92 Estimates of the Province.

In our 1990 Report, we indicated our Office would review this area in considerable detail in future years. Our review in the current year consisted of an examination of the financial management controls over transfer payments at the Departments of Health, Education, and Municipal and Provincial Affairs. We also performed a general assessment of controls at selected hospitals and school boards, together with a detailed review of controls at two school boards and two hospitals.

Our comments and recommendations on controls at hospitals and school boards are contained in Chapter 3 of this Report. Our findings relating to controls at the Departments of Health, Education, and Municipal and Provincial Affairs are included in Chapter 4 and the results of our detailed audits of two hospitals and two school boards are found in Chapter 5.

Our reviews disclosed weaknesses at both the departmental and recipient organization level.

Highlights

At the departmental level we found that there was insufficient monitoring of recipient organizations, particularly in the areas of compliance with legislation, annual budget review and internal audit activity.

Our reviews at the recipient organization level disclosed the following significant weaknesses:

- noncompliance with underlying legislation, particularly relating to reporting requirements;
- weaknesses in financial management practices;
- inadequate system of control over fixed assets; and
- weaknesses in purchasing procedures, particularly in the area of compliance with The Public Tender Act, 1984.

We recommend that controls over transfer payments be strengthened at the departmental and recipient organization level.

3. Review of Human Resource Management in Government (Part 3.7)

A major expenditure of any government and a major part of its resources is in the area of human resources. Government, its Crown corporations, boards and authorities and other entities which depend on transfer payments for their operations employed an estimated forty-two thousand (42,000) people as at the end of the most recent fiscal year, at a total gross salary estimated at \$1.4 billion. The Auditor General Act requires that the Auditor General satisfy himself that there are adequate systems and procedures in place over the expenditure of public money. In view of these requirements and considering the amount of public money expended in the area of human resources, we have commenced a three year review of this area.

The objective of our review is to examine the existing control systems relating to human resources in government and to determine whether there are adequate controls in place to assess Government's accountability for its management of human resources and to ensure that its expenditures in this area are properly authorized and approved.

Auditor General's Overview

Our review to date has resulted in the formulation of several initial recommendations. These recommendations relate to additional emphasis being placed on the overall human resources area, in addition to the payroll processing area. Included are suggestions on organizational emphasis, goal-setting and reporting procedures.

4. Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual (Part 3.11)

Mainframe computing is a critical component of Government's information system and as such is integral to its day to day operations. As a result of this reliance, it is imperative that controls over the operations of Newfoundland and Labrador Computer Services Limited (NLCS) and Government departments be formulated, implemented and monitored. We reviewed the operations of NLCS, the operational policy and procedures manual established by Treasury Board and departmental compliance with the prescribed policy and procedures. As a result of this review, a number of weaknesses and recommendations for improvement were identified.

We suggest that these recommendations be considered for implementation to improve controls over mainframe computer system operations.

5. Annual Reports of Departments and Agencies of Government (Part 3.8)

An important component of a strong accountability process is the requirement of annual reporting to the House of Assembly by departments and agencies, including Crown corporations. On 16 October 1990, Treasury Board approved a format to be followed for such reports. However, the Board left the preparation of such reports to the discretion of departments, Crown corporations and agencies.

We recommend that the Board request that the Lieutenant-Governor in Council make the preparation of annual reports by departments and agencies mandatory.

We note that this is a repeat of a recommendation which we made in our 1990 Report.

Highlights

6. Accountability of Crown Agencies (Part 5.2)

Crown agencies require sufficient autonomy to effectively carry out their respective mandates. However, since they are largely dependent on public funds, it is essential that a strong system of accountability and control be established over their operations.

We recommend that Treasury Board establish a system of accountability and control over all Crown agencies. This should include the establishment and communication of clear policies, practices and procedures to ensure consistency within the practices of all Crown agencies.

We note that this is a repeat of a recommendation which we made in our 1990 Report.

7. The Public Tender Act, 1984 (Parts 4.14, 5.4, 5.5, 5.6, 5.7, 5.8)

Many of our audits during the past year have disclosed a number of areas where The Public Tender Act, 1984, is not being complied with. In this Report we express our comments relating to compliance with that Act by the Cultural Affairs Division of the Department of Municipal and Provincial Affairs and the Arts and Culture Centres, the General Hospital Corporation, the Provincial Public Libraries Board, the Sir Thomas Roddick Hospital, the Western Integrated School Board and the Roman Catholic School Board for St. John's.

We recommend that all departments and applicable agencies comply with The Public Tender Act, 1984.

8. Audit of Workers' Compensation Commission (Part 5.3)

In our 1990 Report, we noted that the financial statements of the Commission had disclosed a \$34.9 million unfunded liability at 31 December 1989. We now report that the financial statements of the Commission for the year ended 31 December 1990 disclosed an unfunded liability of \$112.8 million. This unfunded liability has increased from \$10.7 million in 1988 to \$34.9 million in 1989 and to \$112.8 million in 1990.

Auditor General's Overview

In view of this increase in the unfunded liability of the Commission within the past three years, we feel that it is imperative that this matter be monitored closely and that appropriate action be taken to address this situation.

1.4 Role, Responsibilities and Duties of the Auditor General

Introduction

The Auditor General is the independent external legislative auditor of Government, its departments and various agencies and Crown corporations. He reports to the House of Assembly on significant matters which come to his attention as a result of his examination of these entities.

The Auditor General is also the independent attest auditor of the Province's financial statements and the financial statements of many of its Crown corporations and agencies and, as such, he expresses an opinion on these financial statements.

The Auditor General must satisfy himself that public funds are fully accounted for and examines at his discretion accounts relating to the collection and management of public funds.

Many of the acts which create the Province's Crown corporations and agencies appoint the Auditor General to audit and express an opinion on their annual financial statements. Many of these acts also require that any reports issued by the Auditor General relating to these entities be delivered to the Minister responsible and ultimately tabled in the Legislature. The Auditor General's authority and responsibility under the Auditor General Act, and other acts to audit and report on all public funds require that he satisfy himself respecting the control of such public funds by Crown corporations, agencies or any other entities which receive, hold or expend such funds whether or not the Auditor General is the auditor of the financial statements of such entities. This would include transfer payments issued by the Departments of Health, Education, and Municipal and Provincial Affairs out of the Consolidated Revenue Fund to various organizations to deliver programs on behalf of the Province.

Scope of Audit Activity

1.5 Scope of Audit Activity

Central Government, Departments and the Public Accounts

The Auditor General, on an annual basis, attests to the fair presentation of the Province's financial statements. The Province's revenue and expenditure for the fiscal year ended 31 March 1991 totalled \$3 billion and \$3.3 billion respectively. The Auditor General is also the auditor of the departmental accounts. At 31 March 1991 there were 18 Government departments involved in the administration of the revenue and expenditure programs.

The size and complexity of Government operations prevent the audit of all programs and systems on an annual basis. Therefore, this Office audits a selection of programs and systems each year designed to cover all significant operations on a cyclical basis.

Crown Corporations and Other Audits

The Auditor General, on an annual basis, attests to the fair presentation of the financial statements of certain Crown corporations, boards and authorities. These attest audits are performed in accordance with the provisions of the various legislation which creates these entities. Section 14 of the Auditor General Act also provides that where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the Auditor General shall be the auditor.

In accordance with the Auditor General Act, the Auditor General must satisfy himself respecting the system of control over the receipt and expenditure of public money. He must also satisfy himself that there are adequate systems in place to ensure compliance with the various legislation governing such receipts and expenditures. In order to comply with this requirement, the Auditor General must periodically perform reviews of agencies of the Crown, Crown controlled corporations or other entities which receive transfer payments in the form of public money.

Auditor General's Overview

1.6 Reporting on the Financial Operations of Government

Overall Reporting

The Government and its Crown corporations and agencies present their financial position and results of operations in a number of ways. The Public Accounts, tabled in the Legislature, contain the financial statements of the Consolidated Revenue Fund of the Province along with the statements of the various departments in accordance with the accounting principles disclosed in Note 1 to the Public Accounts.

The financial statements of the various Crown corporations and agencies are included in the volume "Accounts of Crown Corporations, Boards and Authorities" to the extent that they are received by the Comptroller General of Finance prior to preparation of the volume. Some of these financial statements are tabled in the Legislature by the Minister responsible. However, consolidated financial statements including central government and all of the departments, Crown corporations and agencies are not prepared for the information of the Members of the House of Assembly and other interested parties. In previous Annual Reports we made recommendations relating to improved financial reporting by Government.

Preparation of the Public Accounts

In accordance with section 55 of The Financial Administration Act, 1973, (the Act) the Comptroller General of Finance is required to prepare the Public Accounts and submit them for audit by the Auditor General and onward transmission to the Minister of Finance for submission to the House of Assembly.

The Act indicates that the Public Accounts shall show in respect of the fiscal year to which they relate:

"...the state of the public debt; the revenue and expenditure; all compromises, remissions, refunds and amounts written off; and such other accounts and statements as may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year."

Reporting on the Financial Operations of Government

Section A of the Public Accounts contains the Auditor's Report and the Statements of Assets and Liabilities, Excess of Liabilities Over Assets, Revenue and Expenditure, the Consolidated Revenue Fund Statement of Changes in Financial Position and the Notes to the Financial Statements.

Section B of the Public Accounts contains the Statements of Excess of Expenditure Over Revenue, Revenue, Expenditure and Related Revenue by Department - Current Account, Expenditure and Related Revenue by Department - Capital Account, Notes to the Statements of Revenue, Expenditure and Related Revenue by Department, Statement of Unexpended Balances of Appropriations and the Departmental Statements Of Expenditure And Related Revenue.

Section C of the Public Accounts contains the supporting schedules and notes.

Reporting on the Financial Operations of Departments

As indicated above, departmental statements of expenditure and related revenue are presented in section B of the Public Accounts. Most departmental acts make provision for the preparation of annual reports. However, while we found that direction was given to the departments relating to the content and format of these annual reports, the preparation of such reports was left to the discretion of the departments.

In our previous Reports and again in this Report, we make recommendations for improvement.

In this Report, we include a Suggested Framework for Accountability, Financial Management and Control and Reporting (Part 2.4).

Reporting on the Financial Operations of Crown Corporations and Agencies

Most of the acts establishing the Province's Crown corporations, boards and authorities (agencies) require that the agency shall prepare and submit to the Minister responsible a report on its operations for the immediately preceding financial year.

Auditor General's Overview

Our review of the policy of issuing annual reports by the various agencies disclosed that the majority of them, particularly the larger agencies, have issued annual reports in accordance with the applicable legislation. While we have not yet conducted an indepth review of the timing and content of the annual reports of all Crown corporations and agencies, in our previous Reports and again in this Report, we do make recommendations relating to the timing and content of all annual reports.

Reporting on Transfer Payments to Outside Agencies

The Government of Newfoundland and Labrador provides funding through grants or other forms of assistance to various organizations in order to provide services and programs throughout the Province. Hospitals, school boards, colleges and municipalities are some examples of such organizations. The departments administering the major amount of transfer payments include Health, Education, and Municipal and Provincial Affairs. Transfer payment funding amounted to approximately \$1.2 billion for these departments in the 1991-92 Estimates of the Province.

1.7 Auditor General's Opinion

In accordance with section 11 of the Auditor General Act (the Act), the Auditor General is required to express an opinion as to whether the financial statements required by The Financial Administration Act, 1973, to be included in the Public Accounts, present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government on a basis consistent with that of the preceding year.

The Auditor General's report on the Province's financial statements reads as follows:

*To The House of Assembly
Province of Newfoundland*

I have audited the statement of assets and liabilities of the Province of Newfoundland as at 31 March 1991, and the statements of excess of liabilities over assets, revenue and expenditure and changes in financial position for the year then ended. These financial statements

Auditor General's Opinion Explained

are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.

As required by Section 11 of the Auditor General Act, I report that, in my opinion, these principles have been applied, except for the change in accounting for the unfunded pension liability as explained in Note 1.(c) to the financial statements, on a basis consistent with that of the preceding year.

1.8 Auditor General's Opinion Explained

The purpose of this section is to explain, on a phrase by phrase basis, the Auditor General's Report on the financial statements of the Province. The Auditor's Report consists of four paragraphs. The first paragraph, known as the introductory paragraph, identifies the financial statements covered by the auditor's report and distinguishes between the responsibilities of management and those of the auditor. The second paragraph, known as the scope paragraph, informs the reader that the audit was planned and performed in accordance with professional standards, and that the auditor has made judgements in applying these standards. The third paragraph, known as the opinion paragraph, expresses the opinion that was formed based on the examination. The fourth paragraph is required by the Auditor General Act, which requires that the Auditor General report whether the financial statements have been prepared on a basis consistent with the preceding year.

Auditor General's Overview

The Introductory Paragraph

"I have audited the statement of assets and liabilities of the Province of Newfoundland as at 31 March 1991, and the statements of excess of liabilities over assets, revenue and expenditure and changes in financial position for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit." These financial statements are prepared by the Comptroller General of Finance. Section 11 of the Auditor General Act, requires the Auditor General to examine these financial statements and report annually to the House of Assembly the results of this examination. Although not specifically referred to in the Auditor's Report, the Notes to the Financial Statements and supporting schedules are an integral part of the financial statements and are included in our examination.

The Scope

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement." The "generally accepted auditing standards" are those established by the Canadian Institute of Chartered Accountants. These standards relate to the auditor's qualifications, the performance of his examination and the preparation of his report.

In summary, generally accepted auditing standards require:

- ☐ adequate technical training and proficiency in auditing;
- ☐ due care and an objective state of mind;
- ☐ adequate planning and proper execution;
- ☐ proper supervision of assistants;
- ☐ an appropriately organized study and evaluation of internal controls on which the auditor intends to rely;
- ☐ obtaining sufficient appropriate audit evidence; and
- ☐ the issuance of a report.

Auditor General's Opinion Explained

"An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation." The examination of all transactions and records would be impractical and uneconomical. The auditor uses professional judgement to determine the nature, extent and timing of tests and procedures which are necessary to comply with the standards.

The Opinion

"In my opinion..."

This phrase communicates the audit conclusion as an expression of professional judgement, not as a statement of fact. The examination of the financial statements was performed to provide a high degree of assurance, not absolute assurance.

Absolute assurance is not possible due to factors such as the following:

- ☐ Much of the audit evidence is persuasive rather than conclusive.
- ☐ Testing is used as a means of obtaining audit assurance.
- ☐ Audit evidence is costly to obtain. The auditor uses professional judgement to determine the level of assurance to be obtained at a reasonable cost and within a reasonable time.

"... these financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.

As required by Section 11 of the Auditor General Act, I report that, in my opinion, these principles have been applied, except for the change in accounting for the unfunded pension liability as explained in Note 1.(c) to the financial statements, on a basis consistent with that of the preceding year."

Auditor General's Overview

The key words in this phrase are "*present fairly*" and "*in accordance with*". The term "*present fairly*" has meaning only in relation to the basis of accounting followed by the Province and disclosed in the Summary of Significant Accounting Policies. In determining whether the financial statements "*present fairly*", the Auditor General considers whether the stated accounting policies have been followed, whether the financial records are reliable and support the financial statements and whether the accounting policies have been consistently applied.

By "*present fairly*", the Auditor General is not stating that the financial statements are totally correct. He is stating that in his judgement the financial statements do not contain errors in the aggregate that are material. Materiality is the term used to describe the significance of financial statement information to the decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgement in the particular circumstances. Therefore, in using the words "*present fairly*" he is stating that he has obtained reasonable assurance that the financial statements do not contain errors which in the aggregate would render the financial statements misleading or unreliable.

1.9

Acknowledgements

On 11 July 1991, Joseph F. McGrath, C.A., retired after spending ten years as Auditor General of the Province. We wish him well in his retirement.

We express our sincere appreciation to the officials of Government departments, Crown corporations and other entities for their cooperation and assistance during the performance of our audits.

I also extend my appreciation to the staff of the Office of the Auditor General for the thorough and professional manner in which they have carried out their audit responsibilities.

CHAPTER

2

ACCOUNTABILITY, FINANCIAL MANAGEMENT AND CONTROL, AND REPORTING BY GOVERNMENT



Chapter

2

Accountability, Financial Management and Control, and Reporting by Government

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Accountability, Financial Management and Control, and Reporting by Government

2.1

Introduction

Chapter 2 addresses accountability, financial management and control, and reporting by Government. This topic was covered in considerable detail in our 1988, 1989 and 1990 Reports and many of our comments this year will serve as a follow-up to the comments made in those Reports.

These areas are addressed because of their significance in the control of public funds and other public resources.

Many of the areas considered in this Chapter are covered in more detail in other Chapters of this Report. They are summarized in this Chapter to emphasize their impact on the accountability, financial management and control, and reporting by Government and to have major comments relating to these areas reflected in one specific section of the Report.

2.2

Summary of Prior Years' Comments and Recommendations

One of the major requirements of a system of responsible government is that those who are entrusted with the management of public monies are held accountable. A major part of the accountability process is a strong financial management and control system, and a complete and timely system of reporting.

In Chapter 2 of our 1988, 1989, and 1990 Reports we summarized our major comments and recommendations under the headings of Accountability, Financial Management and Control, and Reporting. This Chapter was designed in order that the reader might readily appreciate the impact of matters included in the Report on the systems within Government and its various agencies. Because many of these comments and recommendations are still relevant, they are further summarized and presented in this section of the Report.

Accountability

Some of the comments which we have made in our previous Reports relating to accountability include the following.

Summary of Prior Years' Comments and Recommendations

1. Crown Corporations, Boards and Authorities

We recommended that Treasury Board establish a system of accountability and control over all Crown agencies. This system of accountability and control should include the establishment of clear policies, practices and procedures to ensure consistency in the operations of all Crown agencies and to ensure compliance with all relevant legislation.

2. Transfer Payments

Our reviews disclosed that the Departments of Health and Education did not have adequate systems and procedures in place to ensure that all transfer payments were spent in accordance with Government's objectives and policies. In addition, formal reporting relationships and procedures had either not been established or had not been enforced. Because of this, the departments and the recipients of the transfer payments often did not have the adequate means to report on the discharge of their responsibility.

As a result of our reviews we felt that there should be improved accountability over transfer payments at the departmental level. We felt that a department should have sufficient control over its transfer payments so that it can discharge its responsibility to the Legislature by being accountable for all of its expenditures.

Financial Management and Control

Some of the comments which we have made in our previous Reports relating to Financial Management and Control include the following.

1. Systems

We recommended that each department or agency have a complete and effective system of financial management and accounting control which should as a minimum provide

- a complete financial and informational plan to ensure that operational objectives are clearly defined and related to estimated costs in order to provide reliable targets for results evaluation;

Accountability, Financial Management and Control, and Reporting by Government

- a system of budgetary control which monitors the implementation of plans and interprets financial results;
- a system of financial reporting which ensures that budgetary data reflects the operational plan for a specific period and that appropriate accounting procedures are adopted to provide financial and operational data which pertain to the period reported on;
- an effective system of internal control; and
- emphasis on cost consciousness and control on the part of managers.

We also recommended that

- Each department and agency have a senior financial officer responsible to the deputy minister for the financial operations of the department.
- Each department and agency ensure that adequate systems and procedures are in place to support its decision-making process and to support its detailed annual plan and annual report.

2. Loan Guarantee Program

We made recommendations respecting the development of a policy and procedures manual, documentation relating to loan guarantees, monitoring of all loan guarantees and the guarantee register.

3. Controls over Movable Capital Assets

We recommended that the Department of Works, Services and Transportation become more actively involved in maintaining an adequate inventory control system for office furniture and equipment in all departments. We concluded that full cooperation between that Department and the other departments was essential in order to achieve adequate control over these assets.

Summary of Prior Years' Comments and Recommendations

4. Budgetary System

We reported that the Estimates preparation and approval process was satisfactory, on an overall basis, in meeting the needs of the Legislature. However, we noted areas where improvements could be made in the approval and monitoring process. We also noted weaknesses in the procedures followed in amending original Estimates after the initial approval process was complete.

5. General Service Payroll

We concluded that the system of control over the processing of payroll transactions at the departmental level should be strengthened. We made recommendations designed to enhance the present system of control over payroll expenditures and to help to ensure the completeness and accuracy of the payroll information produced by the system. Our recommendations addressed the areas of segregation of duties, approval of input, reconciliation of output, maintenance of attendance records, authorization and retention of records and review of payroll registers.

Reporting

Some of the comments which we have made in our previous Reports relating to Reporting include the following.

1. Improved Financial Reporting

We recommended that the financial statements of the Province be prepared in accordance with generally accepted accounting principles. The first important step in implementing this recommendation would be to prepare the Province's financial statements on a full accrual basis of accounting. Eventually this would lead to the preparation of a concise annual financial report which would include the consolidated financial position and results of operations of the complete entity, including Government and all of its Crown corporations, boards and authorities which are accountable to the House of Assembly.

We also recommended that the informational needs of the Members of the House of Assembly and other users of the Province's financial statements relating to the content and timeliness of all financial reports be reviewed. This review should consider methods of providing the appropriate financial information necessary for their needs.

Accountability, Financial Management and Control, and Reporting by Government

2. Annual Reports of Departments and Agencies

We recommended that all departments and agencies prepare, for the Minister responsible, a detailed annual report on their operational and financial activities for subsequent tabling in the Legislature.

This report should be an accountability document which is complete, reliable, understandable, and timely. It should meet the informational needs of the user and provide a complete accounting on the management of the resources entrusted to them.

3. The Public Accounts and the Accounts of the Various Departments

We commented on the preparation and audit of the Public Accounts and the accounts of the various departments. In our view, controls and systems were needed in all departments to ensure that the information which was submitted to the Comptroller General of Finance for inclusion in the Public Accounts was complete, accurate and timely. We concluded that all departments and agencies should be required to submit complete and accurate information to the Comptroller General by July 31 and that the Comptroller General should submit the completed Public Accounts to the Auditor General for audit by September 30.

2.3 1991 Conclusions and Recommendations

As a result of our reviews and evaluations of the various systems of control over accountability, financial management and control, and reporting within Central Government, the various departments and many of the Crown agencies and other entities, we make the following comments and recommendations.

Accountability

1. Accountability of Crown Agencies and Direction Given to them by Central Government

Crown agencies require sufficient autonomy to effectively carry out their respective mandates. However, since they are largely dependent on public funds, it is essential that a strong system of accountability and control be established over their operations.

1991 Conclusions and Recommendations

We recommend that Treasury Board establish a system of accountability and control over all Crown agencies. This should include the establishment and communication of clear policies, practices and procedures to ensure consistency within the practices of all Crown agencies.

2. Summary of Comments on Transfer Payments

Our reviews disclosed weaknesses at both the departmental and recipient organization level.

At the departmental level we found that there was insufficient monitoring of recipient organizations, particularly in the areas of compliance with legislation, annual budget review and internal audit activity.

Our reviews at the recipient organization level disclosed the following significant weaknesses:

- ☐ noncompliance with underlying legislation, particularly relating to reporting requirements;
- ☐ weaknesses in financial management practices;
- ☐ inadequate system of control over fixed assets; and
- ☐ weaknesses in purchasing procedures, particularly in the area of compliance with The Public Tender Act, 1984.

We recommend that controls over transfer payments be strengthened at the departmental and recipient organization level.

3. Summary of Comments on The Public Tender Act, 1984

Many of our audits during the past year have disclosed instances of noncompliance with The Public Tender Act, 1984. In this Report we express our comments relating to compliance with that Act by the Cultural Affairs Division of the Department of Municipal and Provincial Affairs and the Arts and Culture Centres, the General Hospital Corporation, the Provincial Public Libraries Board, the Sir Thomas Roddick Hospital, the Western Integrated School Board and the Roman Catholic School Board for St. John's.

Accountability, Financial Management and Control, and Reporting by Government

We recommend that all departments and applicable agencies comply with The Public Tender Act, 1984.

4. Audit of Workers' Compensation Commission

In our 1990 Report we noted that the financial statements of the Commission for the year ended 31 December 1989 had disclosed a \$34.9 million unfunded liability. We now report that the financial statements of the Commission for the year ended 31 December 1990 disclosed an unfunded liability of \$112.8 million. This unfunded liability has increased from \$10.7 million in 1988 to \$34.9 million in 1989 and to \$112.8 million in 1990.

In view of this increase in the unfunded liability of the Commission within the past three years, we feel that it is imperative that this matter be monitored closely and that appropriate action be taken to address this situation.

Financial Management and Control

1. Review of Human Resource Management in Government

A major expenditure of any government and a major part of its resources is in the area of human resources. Government, its Crown corporations, boards and authorities and other entities which depend on transfer payments for their operations employed an estimated forty-two thousand (42,000) people as at the end of the most recent fiscal year, at a total gross salary estimated at \$1.4 billion. The Auditor General Act requires that the Auditor General satisfy himself that there are adequate systems and procedures in place over the expenditure of public money. In view of these requirements and considering the amount of public money expended in the area of human resources, we have commenced a three year review of this area.

The objective of our review is to examine the existing control systems relating to human resources in government and to determine whether there are adequate controls in place to assess government's accountability for its management of human resources and to ensure that its expenditures in this area are properly authorized and approved.

1991 Conclusions and Recommendations

Our review to date has resulted in the formulation of several initial recommendations. These recommendations relate to additional emphasis being placed on the overall human resources area, in addition to the payroll processing area. Included are suggestions on organizational emphasis, goal-setting and reporting procedures.

2. Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

As a result of our review of the operations of Newfoundland and Labrador Computer Services Limited, the operational policy and procedures manual established by Treasury Board and departmental compliance with the prescribed policy and procedures, we made detailed comments and recommendations for improvement as outlined in Part 3.11 of this Report. The recommendations are intended to improve controls over mainframe system operations and development within Government and to ensure the continuity of operations of Government systems in the event of a disaster or extended outage.

3. Excess Sinking Fund Contributions

The Province borrows funds made available under the Canada Pension Plan Act and presently contributes annually 2% of the principal amount of each Canada Pension Plan Debenture into a sinking fund. This ensures that sufficient funds are available to satisfy the maturity of a particular debenture. However, we note that the Province has continued to contribute to sinking funds relating to debentures which already have sufficient sinking fund balances to satisfy the debenture balance at maturity.

We feel that a review of the practice relating to Canada Pension Plan sinking fund contributions and surpluses should be performed to ensure the Province is making optimal use of its cash resources.

4. Valuation of Retail Sales Tax Receivable

The Tax Administration Division of the Department of Finance is responsible for providing the financial information relating to Retail Sales Tax Receivable for inclusion in the Public Accounts at year end. Based on our review of this information we determined that a number of adjustments were required for 1990-91.

Accountability, Financial Management and Control, and Reporting by Government

We recommend that the Tax Administration Division review the procedures used to estimate the value of outstanding returns at year end and document procedures for the determination of a reasonable allowance for doubtful taxes receivable.

Reporting

1. Comments on the Financial Statements of the Province

A. Basis of Accounting

The Province's financial statements (The Public Accounts) except for the Statement of Assets and Liabilities and the Statement of Excess of Liabilities Over Assets are prepared on a cash basis of accounting modified in accordance with The Financial Administration Act, 1973.

We recommend that the Province give serious consideration to adopting the accrual basis of accounting. In our view this would considerably improve financial reporting.

B. Provincial Pension Plans

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its employees and those of its agencies, boards and commissions and members of its Legislature.

In the 1990-91 Public Accounts the unfunded employee pension liability, based on the most recent actuarial valuation, was recorded in the Statement of Assets and Liabilities. In prior years, this liability was disclosed in the notes to the financial statements. However, in the 1990-91 Public Accounts, no provision is made for the increase in liability since the date of the last actuarial valuation.

The recommendations of PSAAC also require that the value of pension benefits earned by employees during the year be recorded in the Statement of Revenue and Expenditure. This recommended accounting treatment will require further study in conjunction with the Province's review relating to the adoption of the accrual basis of accounting.

Suggested Framework for Accountability, Financial Management and Control, and Reporting

C. Net Foreign Exchange Losses

Our review of the Public Accounts disclosed that net foreign exchange losses have been classified as non-budgetary items and have not been charged as expenditure. These losses are shown in the Estimates as non-budgetary and consequently are reported as such in the Public Accounts. However, other debt expenses, such as discounts and commissions relating to the issue and sale of debentures are classified as current expenditures.

We recommend that a review of the current policy of budgeting and accounting for net foreign exchange losses be carried out with a view to recording these transactions as current expenditures.

2. Annual Reports of Departments and Agencies of Government

An important component of a strong accountability process is the requirement of annual reporting to the House of Assembly by departments and agencies, including Crown corporations. On 16 October 1990, Treasury Board approved a format to be followed for such reports. However, the Board left the preparation of such reports to the discretion of departments and agencies.

We recommend that the Board request that the Lieutenant-Governor in Council make the preparation of annual reports by departments and agencies mandatory.

2.4 Suggested Framework for Accountability, Financial Management and Control, and Reporting

Introduction

One of the primary requirements of any system of responsible government is that the Government and its managers be held accountable for their management of the resources entrusted to them. The people (*the electorate*) hold the members of the House of Assembly accountable through the election process. The Members of the House of Assembly, in turn, hold the Government, its various departments, agencies and Crown corporations accountable for policies, decisions and actions taken.

Accountability, Financial Management and Control, and Reporting by Government

Full accountability requires recognition of the authority and responsibility of the Legislature to provide resources to Government to carry out its programs and that such resources be used only for the purposes intended and within the limits approved by the Legislature. Thus, the Legislature is the authority from which Government, its departments and agencies request and ultimately receive funds to carry out various policies and programs. The Legislature, in turn, holds the Government accountable for the resources provided.

Government holds those public service managers, to whom they have delegated certain decision-making powers, answerable for fulfilling the responsibilities that flow from the authority given to them. Public service managers are often assigned responsibilities under specific legislation and the requirement to report on these responsibilities should also be part of the accountability process.

Government and its various departments and agencies rely on public money for their operations. A major part of the permanent head's (Deputy Minister or Chief Executive Officer) responsibility is to ensure adequate accountability, financial management and control, and reporting over the use of such public money. While it is recognized that permanent heads have authority for program delivery, it must also be recognized that with this authority goes the responsibility to account for the manner in which they handle the resources at their disposal.

Scope of Framework

This framework has been prepared as a suggested guideline for consideration by permanent heads of departments and agencies of Government and other senior managers within the public service of the Province who are responsible for receiving, expending or controlling public money and other public resources.

The framework is based on comments and recommendations relating to Accountability, Financial Management and Control, and Reporting by Government made by this Office in its 1988, 1989 and 1990 Reports. It also considers the directives and guidelines provided to senior managers within the Government of Canada and certain provincial governments.

Suggested Framework for Accountability, Financial Management and Control, and Reporting

The framework is designed to present information which may help permanent heads and other senior managers assess whether they are fully discharging their accountability, financial management and control, and reporting responsibilities. It is intended not only to provide suggestions to the permanent head for holding officials and agencies accountable, but also to provide suggestions for ensuring their own accountability to those to whom they report.

The base of the framework requires management representations at each level within the organization. These representations should state the objectives of the entity and give statements of assurance supporting the reporting process. With this accomplished the permanent head may feel confident in giving assurances on the accountability, financial management and control, and reporting responsibilities of the overall organization to the Minister and onward to the Legislature.

The Permanent Head's Responsibilities Relating to Accountability, Financial Management and Control, and Reporting

Permanent heads should have assurance that

- ❑ Adequate financial management and control systems are in effect within their organization to support a strong system of accountability.
- ❑ An adequate formalized system of reporting at all levels is in effect and is understood by all officials and agencies.
- ❑ The decision-making process is supported by timely, relevant and accurate financial information, analysis and advice.
- ❑ The decision-making process gives due regard to the economic, efficient, and effective use of public money and other public resources.

Accountability, Financial Management and Control, and Reporting Framework

Permanent heads should expect to see a number of systems in support of their overall framework for Accountability, Financial Management and Control, and Reporting. These systems should include at least the following:

Accountability, Financial Management and Control, and Reporting by Government

- System of management accountability
- System of financial management
- System of financial information
- System of control
- System of reporting

System of Management Accountability

Permanent heads and their officials at all levels must be aware of their management responsibilities. Their officials should have the necessary training, background and resources available to fulfil these responsibilities.

There should be an adequate and reliable system of monitoring and assessing management performance.

Adequate attention should be paid to the performance of audits (internal and external), reviews, studies and other means of monitoring and assessing management performance and action should be taken on the results of such reviews.

System of Financial Management

Program delivery and major project decisions should always include financial management considerations.

Long-term and short-term plans and proposed initiatives should include an appropriate analysis of financial implications.

Independent reviews should be made of the funding and financial management implications of all plans and proposed initiatives.

Assets, liabilities, revenues and expenditures should be managed with due regard to economy, efficiency and effectiveness and to optimize cash flows and minimize capital costs.

Cost-effective dependable services and systems should be provided at all levels to support sound financial management.

Suggested Framework for Accountability, Financial Management and Control, and Reporting

The responsibility for the financial management organization, systems and processes should be clearly assigned and communicated throughout the organization.

System of Financial Information

Timely and reliable financial information should be available to permanent heads and senior officials to support their accountability, financial management and control, and reporting responsibilities.

Relevant and reliable financial management reports should support the decision-making and control needs of senior officials.

Timely, accurate and consistent information should be available to senior officials for financial management.

Financial information should be an integral part of all program management information systems.

The financial information requirements of the Legislature, Executive Council and other central government agencies should be met in a consistent and timely manner.

System of Control

All legislation, regulations and directives of Cabinet and Treasury Board applicable to accountability, financial management and control, and reporting should be complied with, and spending limits should be strictly observed.

An adequate system of internal control over assets, liabilities, revenues and expenditures should be in place.

The department's or agency's program structure should be supported by a complete and reliable set of accounting records which should meet department, agency and central government directives or requirements.

System of Reporting

An important component of a strong accountability process is the reporting, by those to whom resources have been provided by the Legislature, on the utilization of these resources. This system of

Accountability, Financial Management and Control, and Reporting by Government

reporting, supported by a strong system of financial management and control, requires that government, its departments and agencies which are granted funds be held accountable for the use of such funds based on their approved goals. Those who have control over public funds should be held specifically accountable to the Legislature for their use of such funds.

The annual report of a department or agency, through the Minister to the Legislature, should be an accountability document which is complete, reliable, understandable, and timely. As a minimum it should

- ☐ describe the department's or agency's mission and the major legislation from which it is derived;
- ☐ provide a profile of the client groups and areas served by the department or agency, and describe their current situation;
- ☐ describe the department's or agency's goals and the programs established to accomplish them;
- ☐ describe the major activities undertaken for each program, the financial and other resources used, and the client groups or areas which were served;
- ☐ describe the effects of the department's or agency's programs and the extent to which their goals were achieved; and
- ☐ describe the significant methods used by the department or agency to ensure economy, efficiency, effectiveness, control of its programs and compliance with various legislation, and its success in these matters.

Conclusion

This framework as outlined can be used to provide some assurance to the permanent head of the adequacy and reliability of the system of accountability, financial management and control, and reporting in place within the organization.

Implementation of the framework should

- ☐ be performed within the department or agency and aimed at the entity's practices, systems and services;

Suggested Framework for Accountability, Financial Management and Control, and Reporting

- produce statements of assurance which are meaningful to the permanent head;
- establish a common set of objectives and expectations which allow for overall consistency within departments and agencies;
- establish a specific set of objectives and expectations which are tailored to the entity's requirements, the nature of its programs and priorities and the needs of its management; and
- provide information and statements of assurance which are based on systems which, for the most part, presently exist using current technology.

This framework suggests one way in which permanent heads of departments and agencies and their senior officials may establish a strong system of accountability, financial management and control, and reporting within their entities. This approach requires that senior officials make assertions or management representations about the state of their area of responsibility. These assertions should then be supported by strong control systems, by internal and external audits and by other reviews and studies.



CHAPTER

3

COMMENTS ON GOVERNMENT WIDE REVIEWS



Chapter

3

Comments on Government Wide Reviews

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Comments on Government Wide Reviews

3.1 Introduction

The comments contained in this Chapter result from our audit of the Public Accounts and from our reviews of certain systems and procedures which have an impact on Government, its agencies and certain other entities. During the current year we reviewed the systems of control over transfer payments made by the Province to various entities. We also performed a preliminary review of the system of Human Resource Management within Government, its various agencies and other entities which receive transfer payments.

Additional information relating to prior years' Report comments relating to government wide reviews is presented in Chapter 6 of this Report.

3.2 Comments on the Financial Statements of the Province

Introduction

Section 55 of The Financial Administration Act, 1973, requires the preparation of the Public Accounts of the Province as follows:

"55. (1) The Comptroller General shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister (of Finance) for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

- (a) the state of the public debt;*
- (b) the revenue and expenditure;*
- (c) all compromises, remissions, refunds and amounts written off; and*
- (d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."*

Comments on the Financial Statements of the Province

The Province's financial statements, referred to as the Public Accounts, present the transactions of the Consolidated Revenue Fund. As a result, the assets, liabilities and operating results of Crown corporations, boards and authorities are not included, except to the extent that their transactions impact on the Consolidated Revenue Fund. The annual financial statements of the various Crown corporations, boards and authorities are contained in a separate volume only if received by the Comptroller General of Finance prior to printing of that volume.

Scope

Section 10 of the Auditor General Act requires that the Auditor General audit the accounts and financial statements of the Province as follows:

"10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act."

Section 11 of the Auditor General Act requires that the Auditor General report on the results of the examination of the financial statements as follows:

"11. The auditor general shall examine the several financial statements required by The Financial Administration Act, 1973 to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have."

The Public Accounts of the Province are prepared by the Office of the Comptroller General in accordance with section 55 of The Financial Administration Act, 1973, and submitted to the Auditor General for audit.

Comments on Government Wide Reviews

The Office of the Auditor General examines the financial statements included in the Public Accounts in accordance with section 11 of the Auditor General Act. In the attest "Auditor's Report" on these financial statements, the Office then expresses an opinion as to whether the statements present fairly the financial position, results of operations and changes in financial position of the Province in accordance with the accounting policies as disclosed in the Public Accounts.

In making this examination and expressing an opinion, the Office of the Auditor General must consider the accounting recommendations of the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

We have examined the financial statements of the Province as at 31 March 1991 and we have issued our opinion thereon which is presented in the Public Accounts and is reproduced and explained in Chapter 1 of this Report. We have also considered the detailed recommendations of PSAAC and, where the preparation of the Province's financial statements is not in compliance with these recommendations, we have reported our comments in this Part of the Report.

Summary of Findings and Recommendations

Accrual Accounting

For several years, we have reported our concerns regarding the Province's failure to adopt certain PSAAC recommendations in preparing its financial statements. Our review of the 1990-91 Public Accounts disclosed that the Province is now recording employee pension obligations in its financial statements based on the most recent actuarial valuation. However, no provision is made for the increase in liability since the last actuarial valuation. We also note that a number of other specific recommendations relating generally to the adoption of the accrual basis of accounting have not been fully implemented.

Valuation Allowances

Changes in valuation allowances are not reported in the Statement of Revenue and Expenditure. In our view, the loss in value of convertible assets, such as accounts receivable should, in substance, receive the same accounting treatment as an expenditure.

Comments on the Financial Statements of the Province

Timely Financial Statements

The Public Sector Accounting and Auditing Committee recommends that financial statements be issued on a timely basis, however, audited financial statements of the Province are not usually available until nine to twelve months after year end. In our view, the Office of the Comptroller General should take steps to accelerate the preparation of the Public Accounts so that they may be presented to users on a more timely basis.

Physical Assets

Information to describe Government's acquired physical assets on hand and available for use by the Government is not fully disclosed in the financial statements. We encourage Government to review this issue.

The Reporting Entity

The reporting entity for Public Accounts purposes is the Consolidated Revenue Fund. As a result, the assets, liabilities and operating results of Crown corporations, boards and authorities are not included, except to the extent their transactions impact on the Consolidated Revenue Fund. The activities of Crown corporations and similar entities are ultimately the responsibility of Government. By reflecting all of the activities relating to Government operations in the financial statements of the Province, the users of such financial information would be able to make a more informed assessment of the activities of the Government as a whole.

Following are detailed comments relating to these matters.

Commentary

Introduction

The Province prepares its financial statements on the cash basis of accounting modified in accordance with The Financial Administration Act, 1973. This Act provides for the inclusion of revenue from the Government of Canada relating to the current or prior fiscal years, if received within 30 days from the end of the fiscal year. Also, invoices received for payment by the Comptroller General of Finance within 30

Comments on Government Wide Reviews

days from the year end, which pertain to liabilities existing at year end, are charged to expenditure in the year in which the liability was incurred.

In accordance with the accounting policies used in the preparation of the Public Accounts, the balance sheet (Statement of Assets and Liabilities) is prepared using the "*net direct debt*" basis. The objective of this presentation is to show the Province's net direct debt, rather than the accumulated amount of assets and liabilities. The Province's net direct debt consists of total direct debts less the value of convertible assets such as accounts receivable, loans, advances and investments. Assets which are not considered to be convertible are not valued.

Public Sector Accounting and Auditing Committee

In 1981 the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants was established with an overall objective to improve and harmonize financial reporting, accounting and auditing in the public sector in Canada. To meet this objective, PSAAC issues statements that recommend standards for good practice in financial reporting, accounting and auditing in the public sector and also initiates research studies on public sector accounting and auditing matters. The Public Sector Accounting Statements and Recommendations apply to all governments unless their application is specifically limited in individual PSAAC statements. PSAAC has indicated that the federal and most provincial governments substantially comply or plan to comply with PSAAC recommendations. Most legislative auditors comment on adherence to PSAAC recommendations in their annual reports.

Public Sector Accounting Statement 3 - General Standards of Financial Statement Presentation for Governments, dated November 1986, recommends general reporting principles and standards for the disclosure of information in government financial statements.

Public Sector Accounting Statement 4 - Defining the Government Reporting Entity, dated November 1988, defines the scope of the reporting entity in terms of the organizations whose financial affairs and resources should be accounted for in government financial statements. It also makes recommendations on accounting for and reporting the financial affairs of those organizations and on accounting

Comments on the Financial Statements of the Province

for and reporting long-term investments and trusts under their administration.

Public Sector Accounting Statement 5 - Accounting for Employee Pension Obligations in Government Financial Statements, dated November 1988, recommends how to account for and report employee pension obligations in the financial statements of provincial governments.

Public Sector Accounting Statement 7 - Accounting for Government Transfers, dated November 1990, recommends how to account for and report government transfers in the financial statements of governments.

Public Sector Accounting Statement 3

General Standards of Financial Statement Presentation for Governments

Introduction

Our review of the 1990-91 Public Accounts has disclosed that there has not been any significant improvements for this year relating to PSAAC Accounting Statement 3, except for the manner of reporting unfunded employee pension liabilities. We have commented on this area in Part 3.10 of this Report. The following summarizes a number of areas dealt with in the recommendations of Statement 3 which have not been fully implemented by Government.

Accrued Expenditures

Expenditures are not all accounted for in the period in which the goods and services are acquired or a liability is incurred. Present practice is in accordance with The Financial Administration Act, 1973. While the liabilities are recorded for goods and services received during the year, they are charged to expenditure for that year only if the invoices are received for payment by the Comptroller General in that year or within thirty days of the year end.

We note that the majority of provinces in their 1990 financial statements accounted for expenditures in the period goods and services were acquired and a liability was incurred.

Comments on Government Wide Reviews

Accrued Revenues

Revenues are not all accounted for in the period in which the transactions or events occurred that gave rise to the revenues. They are recorded when actually received except that amounts received from the Government of Canada within 30 days of year end are recorded as revenue in the current fiscal year if they pertain to that year or a previous year.

Valuation Allowances

Changes in valuation allowances are not reported in the Statement of Revenue and Expenditure, however, they are disclosed in a Schedule of Accruals. Valuation allowances, such as recognizing a decline in value of an investment or providing for the uncollectibility of an account receivable, generally represent a loss in value of an asset of the Province. When originally paid out, amounts considered to be recoverable are recorded as assets. When it is later discovered that such amounts are not fully recoverable, the unrecoverable amount should, in substance, receive the same accounting treatment as an expenditure.

Timely Financial Statements

The Public Accounts are prepared by the Office of the Comptroller General in accordance with section 55 of the Act. In addition to the accounting systems maintained by that Office, considerable reliance must also be placed on submissions received from the various departments and certain agencies in order to produce a complete set of Public Accounts.

Section 55 of the Act requires that the Public Accounts, when completed, be submitted to the Auditor General for audit and onward transmission to the Minister of Finance for submission to the House of Assembly. In accordance with section 56 of the Act, the Minister must lay the Public Accounts before the House of Assembly on or before the thirty-first day of January in the following year if the Legislature is then in session, and if it is not, then within one week after the commencement of the next ensuing session of the Legislature.

In previous reports we have noted that the financial statements of the Province were not issued on a timely basis. Audited financial statements were not normally available until nine to twelve months

Comments on the Financial Statements of the Province

after year end. We note that although we received certain draft sections of the 1991 Public Accounts in October 1991, the complete Public Accounts were not provided to us by the Comptroller General of Finance for audit until late November 1991.

The preparation of the Public Accounts along with the necessary supporting working papers, verification procedures and follow up with the departments and agencies is extremely technical and time consuming. In fact, as reporting standards throughout government are strengthened within Canada this work will become even more specialized and place even greater demands on the resources of the Office of the Comptroller General. That Office presently has assigned only one manager and occasional clerical assistance to the preparation of the Public Accounts.

We recommend that the Office of the Comptroller General take steps to accelerate the preparation of the Public Accounts.

Physical Assets

Information to describe Government's acquired physical assets on hand and available for use by the Government is not fully disclosed in the financial statements. A Schedule of Fixed Assets representing accumulated costs less contributions and proceeds from sales is provided.

A research study, Accounting and Reporting for Physical Assets by Governments, has been conducted by PSAAC. This study makes several proposals for accounting for physical assets and analyses current practice in government financial statements.

We encourage Government to review this issue while considering the recommendations of the research study.

Public Sector Accounting Statement 4

Defining the Government Reporting Entity

The reporting entity for Public Accounts purposes is the Consolidated Revenue Fund. As a result, the assets, liabilities and operating results of Crown corporations, boards and authorities are not included, except to the extent that their transactions impact on the Consolidated Revenue Fund. As previously indicated, financial statements for

Comments on Government Wide Reviews

Crown corporations, boards and authorities are included in a separate volume, if received by the Comptroller General of Finance prior to printing of that volume.

Public Sector Accounting Statement 4 - Defining the Government Reporting Entity, dated November 1988, defines the scope of the reporting entity in terms of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature and which are owned or controlled by government. Accounting Statement 4 recommends that *"Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government enterprises, which should be accounted for by the modified equity method."*

The recommendations of Accounting Statement 4 provide direction on accounting for the transactions of Crown corporations, boards and authorities in government's summary financial statements. We consider this to be an important issue.

In our view properly defining and accounting for the government reporting entity would significantly improve the accountability process. The activities of Crown corporations and similar entities are ultimately the responsibility of government. Activities, significant both as to nature and amount, are conducted through these entities. Yet, these activities are not fully reflected in the financial statements of the Province. By reflecting all of the activities relating to government operations in the financial statements of the Province, the users of such financial information would be able to make a more informed assessment of the activities of the government as a whole.

Public Sector Accounting Statement 5

Accounting for Employee Pension Obligations in Government Financial Statements

Unfunded employee pension liabilities, based on the most recent actuarial valuation, are now recorded in the Statement of Assets and Liabilities. In prior years, the liabilities were disclosed in the notes to the financial statements. However, in the 1990-91 Public Accounts, no provision is made for the increase in liability since the last actuarial valuation. Also, the Statement of Revenue and Expenditure does not

Comments on the Financial Statements of the Province

reflect the actual value of pension benefits earned by employees during the year. We have commented on this area in Part 3.10 of this Report.

Public Sector Accounting Statement 7

Accounting for Government Transfers

Public Sector Accounting Statement 7 - Accounting for Government Transfers, dated November 1990, is the most recent Accounting Statement issued by PSAAC and recommends how to account for and report transfers to individuals, organizations or other governments in the financial statements of governments. For example, specific recommendations are made relating to accounting for federal/provincial equalization.

We feel that the recommendations of this statement should be given consideration during the process of reviewing the adoption of the accrual basis of accounting.

Financial Accounting Issues Committee

In 1990 an interdepartmental committee was established to review accounting issues relating to the Public Accounts and to make recommendations as to what accounting policies Government should implement. This committee has met on three occasions and has conducted some research into the issues involved but has not yet made any recommendations. In our view, greater priority should be given to completing a project of this nature in a reasonable time frame.

Conclusion

The recommendations of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants are designed to improve financial reporting by all governments in Canada.

The adoption of these recommendations would not only significantly improve financial reporting by governments but would also make the financial reports of all governments more comparable from year to year and from jurisdiction to jurisdiction.

In 1990 a committee consisting of representatives from Treasury Board Secretariat, the Departments of Finance, and Works, Services and Transportation was established to review PSAAC Accounting

Comments on Government Wide Reviews

Statements and recommend which policies Government should implement and in what time frame. To date this Committee has met on three occasions. Our office has been invited to attend the committee meetings and to participate in its research. We strongly support the process of establishing an interdepartmental committee to review accounting issues relating to the Public Accounts.

However, we note that there has still been very little progress in implementing recommendations relating generally to the adoption of the accrual basis of accounting. The Comptroller General has indicated that it would take two to three years to accomplish this and would require legislative changes and sufficient resources.

We feel that additional resources will be required in order to complete a project of this nature. In fact it is very unlikely that these recommendations can be implemented without such additional resources.

We note that on 9 July 1991 the Standing Committee on Public Accounts met to review Part 3.2 (Financial Statements of the Province) of our 1990 Report. Officials from the Office of the Auditor General and the Office of the Comptroller General attended and the issues raised above were discussed. The Committee has not yet issued a report relating to this matter.

3.3 Summary of Certain Financial Information

This Part is provided as a source of information for the Members of the House of Assembly and other readers to help them more readily appreciate the background of various amounts presented in the Public Accounts of the Province. It also provides information on the magnitude of assets and liabilities and results of operations of certain Crown corporations, boards and authorities in relation to the Public Accounts. It is noted that, except to the extent their transactions impact on the Consolidated Revenue Fund, information relating to these entities is not included in the Public Accounts.

- A. The following analysis shows the amounts disclosed in the 1990-91 Public Accounts of the Province relating to results of operations and assets and liabilities.

Summary of Certain Financial Information

Also included at the end of this part are graphical representations showing the changes in certain amounts disclosed in the Public Accounts which have occurred over the five year period from 1987 through 1991 inclusive.

(i) Results of operations of central government for the year ended 31 March 1991

Revenue	(\$000)
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Current Account Revenue:

Provincial	1,429,556
Government of Canada	<u>1,136,991</u>

Total Current Account Revenue	2,566,547
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Related Revenue	<u>400,459</u>
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Total revenue	<u>2,967,006</u>
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Expenditure

Salaries and employee benefits	398,028
Transportation and communications	35,560
Supplies	62,261
Professional services	82,881
Purchased services	162,530
Property, furnishings and equipment	71,001
Loans and advances	62,270
Allowances and assistance	252,565
Grants and subsidies	1,705,122
Debt expenses	<u>482,224</u>

Total expenditure	<u>3,314,442</u>
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Comments on Government Wide Reviews

Excess of expenditure over revenue	347,436
Less: Loans, advances, investments and other amounts capitalized	<u>47,449</u>
Total Deficit (current and capital accounts) for the year ended 31 March 1991	<u>299,987</u>

(ii) Assets and Liabilities

Assets	(\$000)
Temporary investments at cost	203,677
Government of Canada - claims in process	48,868
Accounts and taxes receivable (net of allowance for doubtful accounts)	74,232
Prepaid and deferred charges	8,824
Loans, advances and mortgages receivable (net of allowance for doubtful accounts)	209,239
Investments at cost (net of allowance for investment write-downs)	<u>91,862</u>
Total assets	<u>636,702</u>
Liabilities	
Current liabilities	728,637
Net debenture and other debt excluding current portion (net of sinking fund assets)	3,382,209
Other long-term liabilities	105,579
Unamortized unrealized foreign exchange gains	26,023
Unfunded pension liability	<u>1,943,800</u>

Summary of Certain Financial Information

Total liabilities	<u>6,186,248</u>
Excess of liabilities over assets	<u>5,549,546</u>

The following comments are made relative to the information stated in the above summary:

1. Inventory and fixed asset acquisitions are not valued on the Statement of Assets and Liabilities. Such acquisitions are charged to budgetary expenditures and are expensed in the year they are acquired. A Schedule of Fixed Assets is included in the Public Accounts which shows the accumulated costs since Confederation less contributions towards the cost of the assets under various cost-sharing programs and proceeds from sales. The total on this schedule for the fiscal year ended 31 March 1991 is \$1,946,672,000.
2. The Excess of Liabilities over Assets amount is a cumulative figure reflecting the results of operations and other adjustments. The above amount of \$5,549,546,000 for the fiscal year ended 31 March 1991 can be summarized as follows:

	(\$000)
Excess of liabilities over assets - beginning of year	3,362,194
Add: Total deficit (current and capital accounts)	299,987
Unfunded pension liability	1,943,800
Accruals at year end	438,341
Other adjustments	<u>31,958</u>
	6,076,280

Comments on Government Wide Reviews

Less:	Reversal of prior year's accruals	415,890
	Sinking fund earnings	<u>110,844</u>
	Excess of liabilities over assets - end of year	<u>5,549,546</u>

- B. The Public Accounts of the Province of Newfoundland do not include the assets, liabilities and operating results of Crown corporations, boards and authorities, except to the extent their transactions impact on the Consolidated Revenue Fund. Financial statements for these entities are included in a separate volume, presented annually to the House of Assembly.

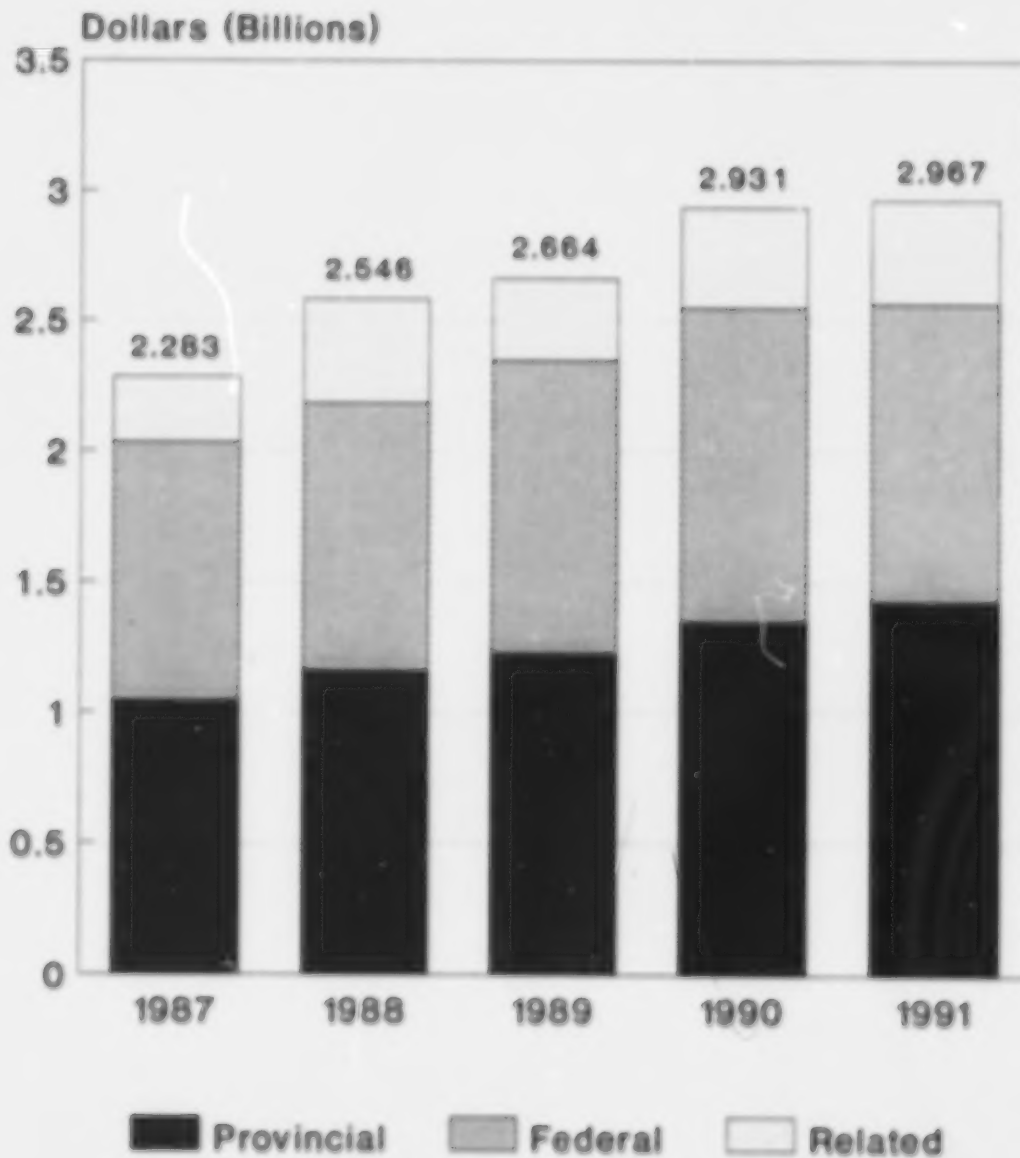
The following summary shows the assets, liabilities and operating results of three of these larger entities.

	<u>Total Assets</u> (\$000)	<u>Total Liabilities</u> (\$000)	<u>Net Income</u> (\$000)
Province of Newfoundland Pooled Pension Fund - year ended 31 December 1990	607,200	2,517	79,319
Newfoundland and Labrador Hydro - year ended 31 December 1990	2,302,340	1,801,175	21,675
Newfoundland Liquor Corporation - year ended 31 March 1991	30,902	11,275	79,442

Summary of Certain
Financial Information

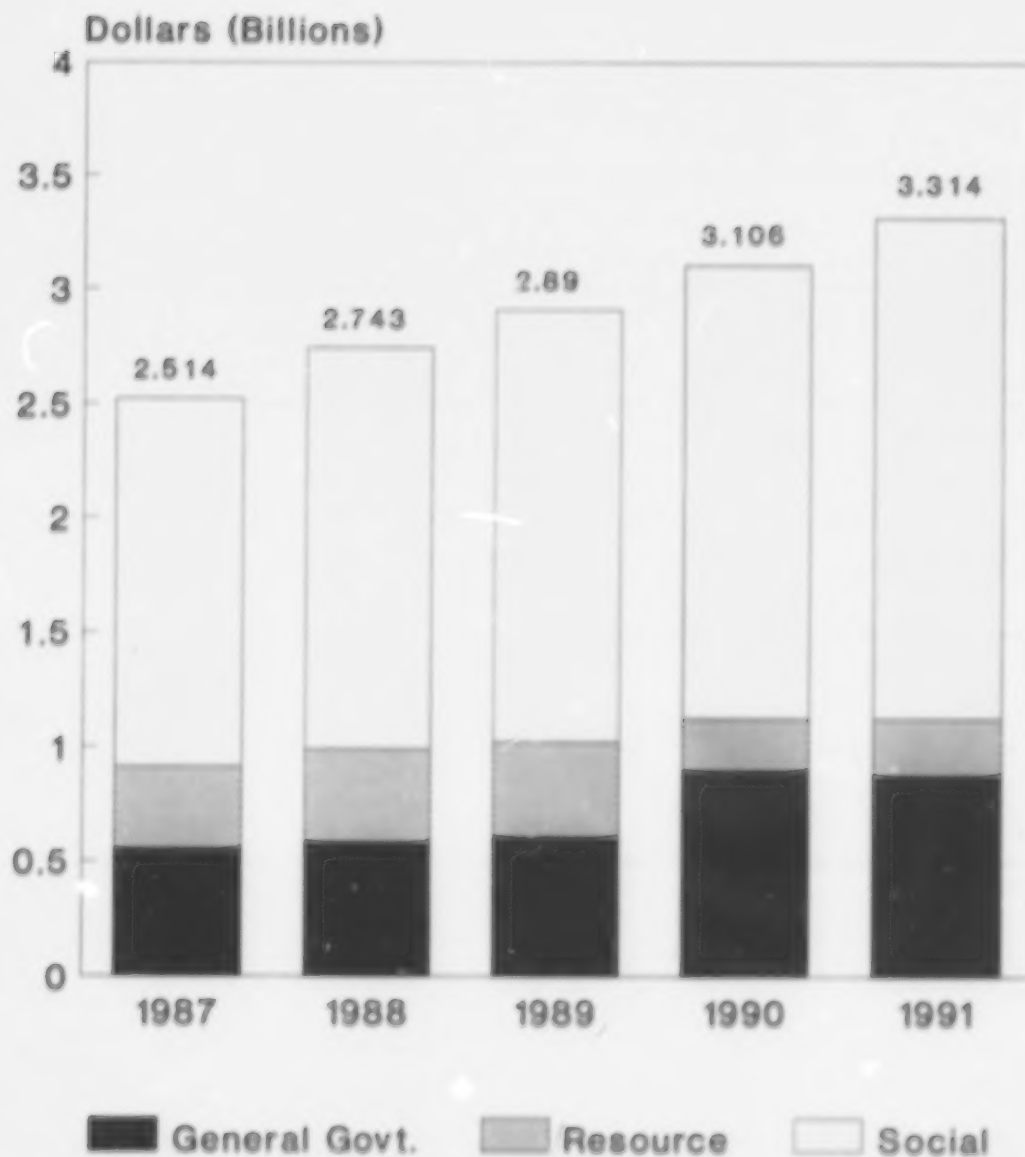
Revenues by Source

1987 through 1991



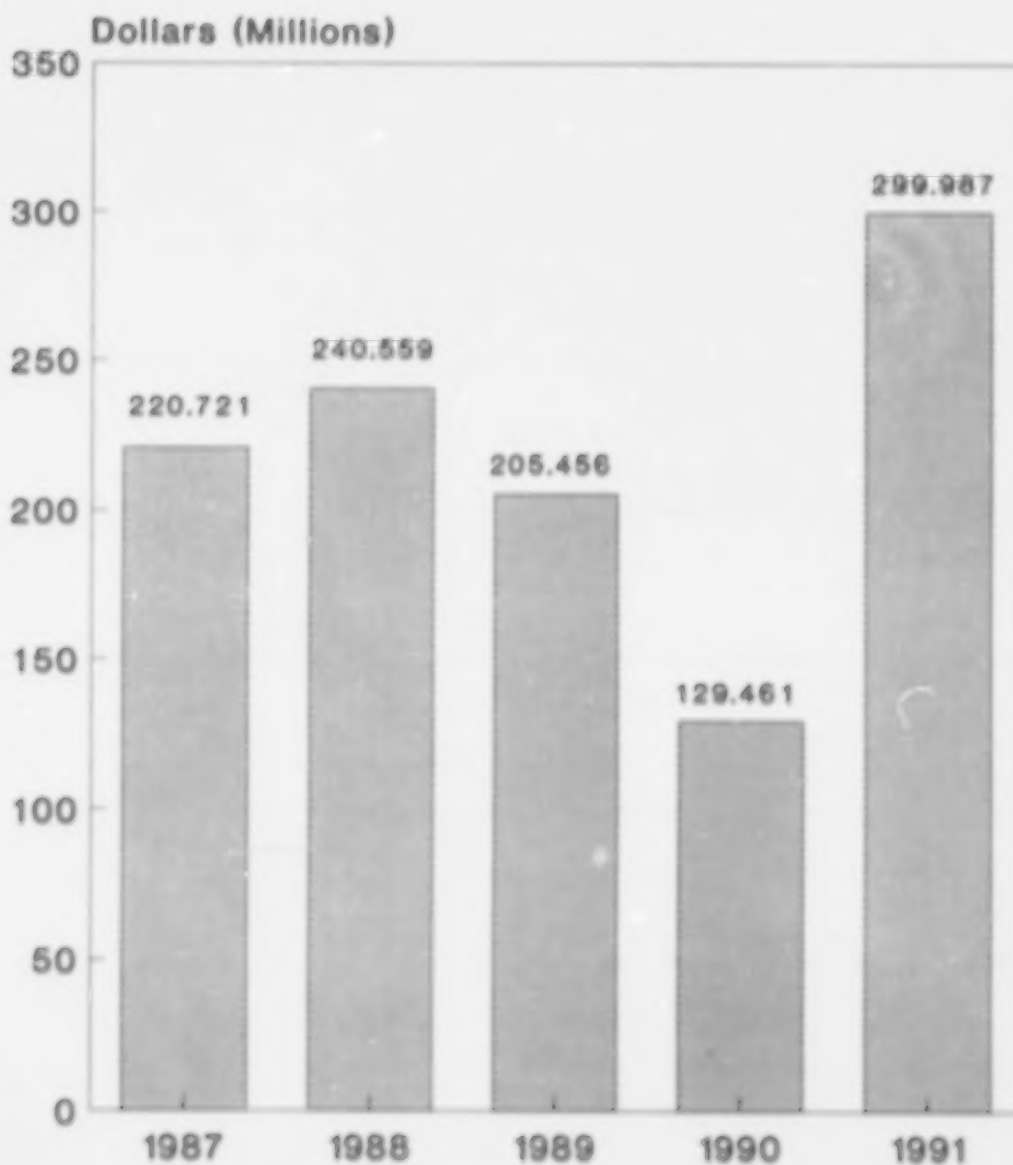
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Expenditure by Sector 1987 through 1991

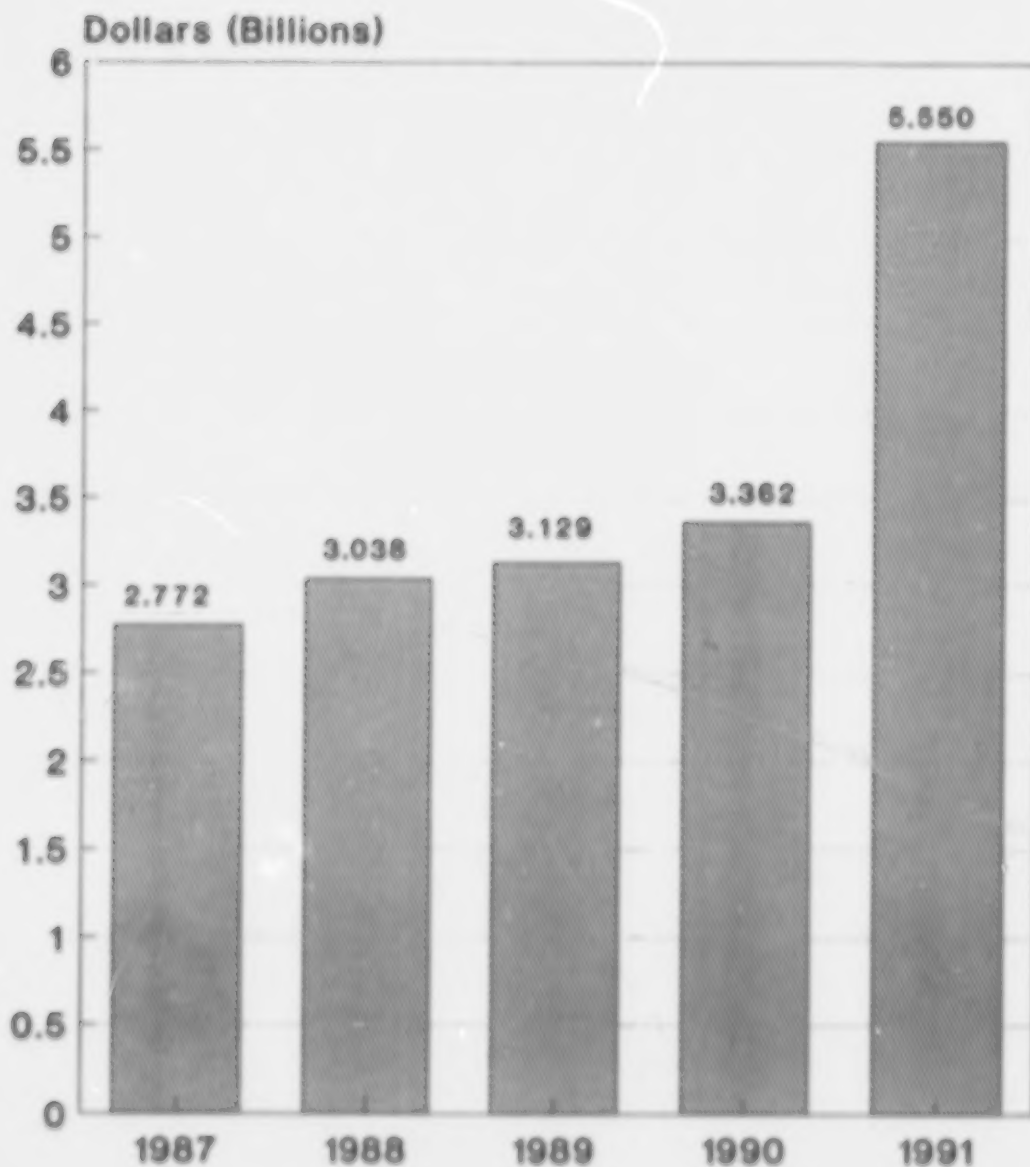


**Summary of Certain
Financial Information**

**Deficit (Current and Capital)
1987 through 1991**



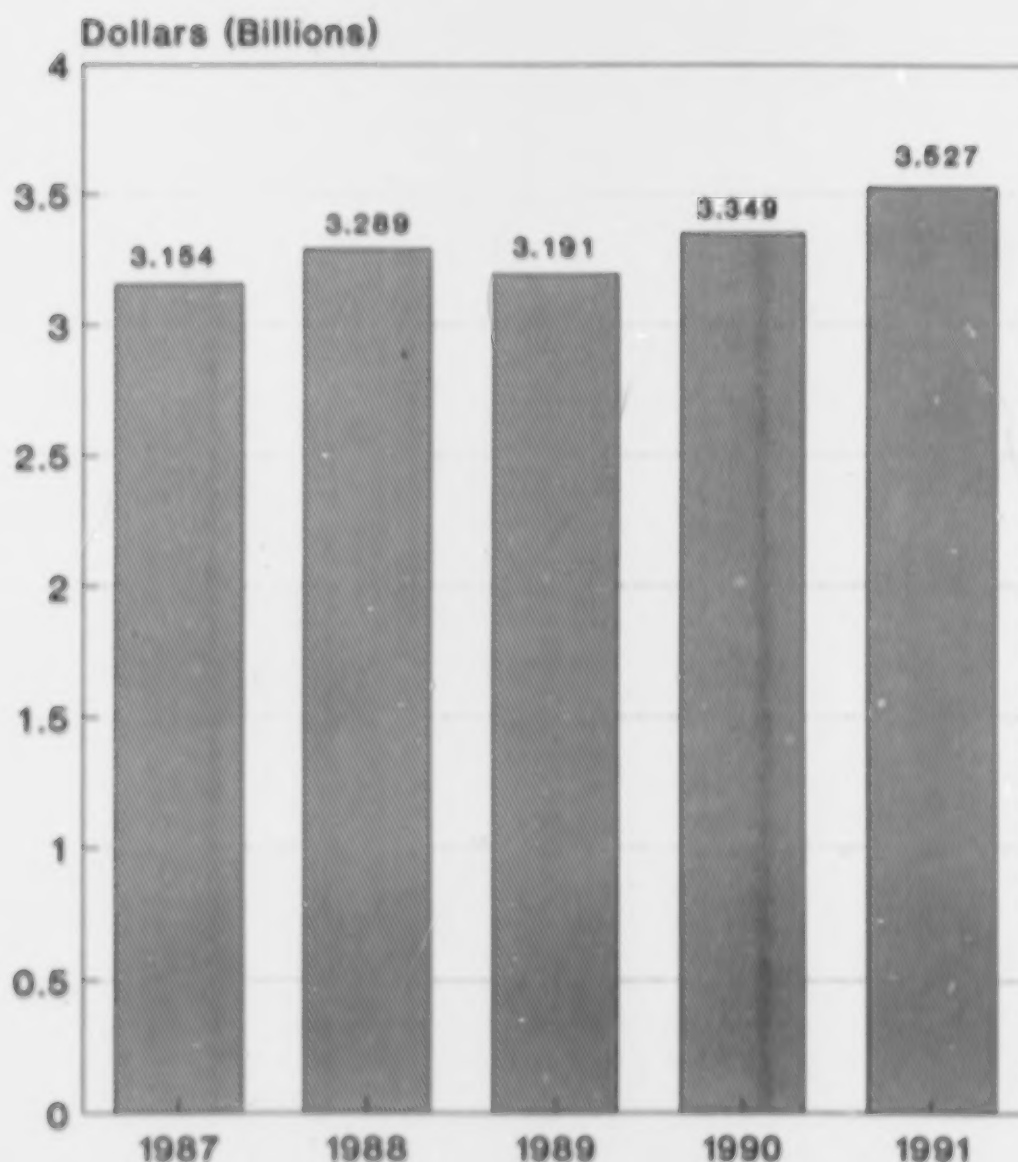
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In the 1990-01 Public Accounts of the Province the unfunded employee pension liability of \$1.8 billion, based on the most recent actuarial valuation, was recorded in the Statement of Assets and Liabilities. In prior years, this liability was disclosed in the notes to the financial statements. This change in reporting represents the major portion of the increase in Excess - Liabilities over Assets in 1990-01.

Summary of Certain
Financial Information

Net Debenture Debt
1987 through 1991



1. Net debenture debt includes current and long-term portions of debenture and other debt less sinking fund assets.
2. Commencing in 1989, a change in accounting policy was established whereby the Province recorded unrealized foreign exchange gains or losses relating to debenture or other debt. Prior to 1989, such amounts were not recorded but were disclosed in Note 6 of the Notes to Financial Statements. The above graph reflects the increase for 1987 as disclosed in Note 6 for that year.

Comments on Government Wide Reviews

3.4 Audit of Transfer Payments General Comments

Introduction

The Government of Newfoundland and Labrador uses different organizations to provide services and programs throughout the Province. These include hospitals, school boards, colleges, municipalities and other non-profit organizations.

Funding to these organizations may be provided by one or a combination of options such as by direct taxation or by loan guarantee. One such method of funding, which is the subject of this review, is through transfer payments. Transfer payments represent a significant portion of the annual expenditure of the Province and cover a wide range of programs and recipients across many government departments and Crown agencies. In most cases the transfer payments are vital to the continued operation of the recipient organization.

Commentary

Accountability over transfer payments was reported in our Report for the fiscal year ended 31 March 1989. In that year we looked at how accountability was discharged in two of the major donor departments - the Department of Health and the Department of Education. This year we revisited these departments and also examined the accountability process in effect at the Department of Municipal and Provincial Affairs. Our comments on our findings resulting from these reviews are contained in Chapter 4.

The accountability process for transfer payments does not stop at government departments. It extends from the Legislature that approves the funding to the Minister and department who pay out the funds and to the recipient organization that receives and expends the funds. The process by which recipients are held responsible for transfer payments is derived generally from legislation, regulations, directives and sound business practices. This process must include a method for setting objectives and measuring results. Typically this is achieved through a system of budgeting, monitoring and reporting. Using this criteria as a general guide, our Office has expanded our review of transfer payment accountability in the current year to include an examination of controls at two school boards and two hospitals. We also completed a survey of a more general nature on transfer payment controls at 10 of the Province's hospitals and 21 school boards. Our comments on the detailed reviews are included in Chapter 5 of this Report and the

Transfer Payment Accountability Hospitals

results of our survey of hospitals and school boards are included in sections 3.5 and 3.6 of this Chapter.

Conclusion

As a result of our review at three major donor departments and our review at the several hospitals and school boards, we feel that control over transfer payments could be improved. Departments need to improve their system of monitoring transfer payment recipients, as well as improve their own reporting to the Legislature. More detailed findings and recommendations are contained in the separate sections on transfer payments.

3.5 Transfer Payment Accountability Hospitals

Overview

As part of our audit of transfer payment accountability, we conducted a survey to examine control systems at several of the Province's hospitals. Our survey included interviews with senior officials at the hospitals and completion of a questionnaire. Our objective was to obtain a general assessment of the systems of control which the hospitals have over financial management, purchasing and fixed assets. In total, ten hospitals were visited and the questionnaires completed. While we did not perform a detailed review of each institution, we do plan to conduct indepth audits in future periods.

Conclusion

Our survey indicated that many aspects of financial management and purchasing at the hospitals appeared to be adequate. There were some problems noted in the area of reporting and there appeared to be insufficient internal audit activity by the Department of Health. Also, controls over fixed assets were found to be weak.

Findings and Recommendations

Financial Management

Formalized management policies and procedures

Our survey results indicated that, for nine respondents, adequate policies and procedures were in place for responsible financial

Comments on Government Wide Reviews

management, and were communicated to the staff. This was accomplished by means of a policies and procedures manual. One respondent indicated that these policies and procedures were documented through government directives.

Compliance with section 19 (1) of The Hospitals Act

Section 19(1) of The Hospitals Act requires the chairman of the Hospital Board to submit an annual report to the Minister of Health by 30 September. Our survey indicated that three of the ten hospitals are not submitting these annual reports.

Roles and responsibilities of the board, management and staff

All respondents indicated that the roles and responsibilities of the board, management and staff are clearly defined in the financial management process.

These defined roles and responsibilities provide a clear understanding of the powers and duties of the board, management and staff.

External audited financial statements

Our survey indicated that all respondents submit copies of the external audited financial statements each year to the Department of Health.

External audited financial statements provide useful supplemental data for ensuring that the conditions of the transfer payments have been met. These statements can verify the accuracy of data provided by the hospitals to the Province.

Internal audits

All respondents had different responses to when the Department of Health last performed an internal audit of the hospitals. However, only two of the ten hospitals reported they had been audited by the Department of Health within the past three years. Two of the hospitals had never been audited and one respondent indicated that an internal audit was performed approximately ten years ago.

Transfer Payment Accountability Hospitals

Internal audits are objective and represent independent reports to the Department on the effectiveness of the various systems at the hospitals. The use of an internal audit function is necessary to ensure financial accountability and control over transfer payments.

Documented long range plans

Eight respondents indicated they had documented long range plans for their boards that incorporated such areas as hospital expansion requirements, potential closures, staffing requirements, etc.. One respondent indicated there were no documented long range plans. One respondent indicated there were documented long range plans, but these were no longer applicable due to budget restraint and changes in the hospitals mandate.

Recommendations

- All hospitals should have a formalized Financial Management Policy and Procedures Manual. Hospitals should ensure the established policies and procedures are adhered to and the manual is updated on a regular basis.
- We recommend all hospitals comply with section 19(1) of The Hospitals Act and ensure annual reports are made to the Minister of Health.
- Internal audit activity in the area of compliance with Government policies, procedures and directives should be strengthened so that each hospital is audited on a cyclical basis at least every three years.

Purchasing

Formalized purchasing policies and procedures

Our survey results indicated that nine respondents felt purchasing policies and procedures were clearly defined and communicated to staff. This was accomplished by means of a policies and procedures manual. One respondent indicated that the hospital did not have a purchasing policies and procedures manual.

Comments on Government Wide Reviews

The Public Tender Act, 1984, and The Provincial Preference Act

Six respondents indicated that formal guidelines are in place to ensure compliance with The Public Tender Act, 1984, and The Provincial Preference Act. Four respondents indicated that although no formal guidelines are in place, The Public Tender Act, 1984, and The Provincial Preference Act are being complied with.

Recommendations

- All hospitals should establish formalized purchasing policies and procedures and ensure that these policies are complied with.
- All hospitals should prepare and approve formal guidelines to ensure compliance with applicable legislation and regulations.

Fixed Assets

Formalized policies and procedures

Our survey indicated that eight respondents had policies and procedures in place relating to the control and use of fixed assets. Two respondents indicated that the hospital did not have these formalized policies and procedures.

Fixed asset ledger

Four respondents indicated their hospitals maintained a fixed asset ledger while six indicated their hospital did not maintain this ledger.

Annual inventory count

Our survey indicated that eight respondents did not perform an annual inventory count of fixed assets. One respondent indicated that semi-annual counts are performed at the hospital. The other respondent indicated that annual counts are performed.

Recommendations

- All hospitals should establish and follow formalized policies and procedures for control over fixed assets.

Transfer Payment Accountability School Boards

- All hospitals should maintain a fixed asset ledger and ensure that additions and disposals of fixed assets are recorded on a timely basis.
- Inventory counts should be performed at least annually and the results reconciled to the accounting records. Significant differences should be investigated.

Other Matters

Conflict of interest guidelines

Seven respondents indicated that the hospital had conflict of interest guidelines that were documented and communicated to the board and staff members. Three respondents indicated these guidelines did not exist.

Recommendation

- All hospitals should ensure that conflict of interest guidelines are approved, documented and communicated to the board and hospital staff.

3.6 Transfer Payment Accountability School Boards

Overview

A school board, constituted under The Schools Act, is responsible for all aspects of education within its district, including employment of teachers, the operation and maintenance of school buildings and the provision of pupil transportation. The School Board Directory, prepared by the Department of Education, shows that a total of 29 school boards administered educational programs in 529 schools across the Province during the 1990-91 school year. As part of our audit of transfer payment accountability, we conducted a survey to examine control systems at 21 of these school boards.

Our survey included interviews with business managers and other senior management at the school boards and the completion of a questionnaire. Our objective was to obtain a general assessment of the systems of control the school boards have over financial management,

Comments on Government Wide Reviews

movable fixed assets and purchasing. While we did not perform a detailed review of each entity, we do plan to conduct indepth audits in future periods.

Conclusion

The need for a stronger system of reporting, review and control at the school boards is evident. Our survey indicated that in many areas of financial management, purchasing and movable fixed assets, controls at the school board appeared to be inadequate. As well, several respondents seemed unclear as to their authority under various legislation such as The Schools Act or The Public Tender Act, 1984. There also appeared to be a lack of communication and coordination between school boards and the Department of Education.

Findings and Recommendations

Financial Management

Financial management policies and procedures not documented

Financial management policies and procedures may include policies to define authority and responsibility for such areas as cash management, purchasing, asset protection, etc.. Procedures may include a formal schedule for budget preparation and review, procedures for control and monitoring of variances, procedures for control over assets, etc.. Over 50% of the school boards in our survey indicated they had no formal financial management policies and procedures in place.

Roles and responsibilities not documented

Although most of the school board officials indicated that they had a good understanding of their own roles and responsibilities, over 35% of those surveyed disclosed that the roles and responsibilities of the board, board staff and management and school principals were not documented at the school board.

Reports not being prepared and reviewed on a timely basis

Although most respondents indicated reports were being prepared and reviewed on a timely basis, our survey revealed that over 20% of the school boards did not prepare variance analysis reports for review by

Transfer Payment Accountability School Boards

senior management and the board. In addition, school boards do not submit interim reports to the Department of Education for review.

Recommendations

- Each school board should maintain a Financial Policy and Procedures Manual outlining school board policies and describing in detail proper procedures to be followed. The manual should include procedures for the timely preparation and distribution of reports.
- The responsibilities of management, board staff and school principals should be clearly documented and communicated in the financial management process.

Purchasing

No formal purchasing policies and procedures in place

Almost half of the school boards surveyed indicated that there were no formal purchasing policies and procedures in place.

No formal guidelines in place to ensure compliance with The Public Tender Act, 1984, and The Provincial Preference Act

Our survey indicated that over 75% of the school boards had no formal guidelines to ensure compliance with The Public Tender Act, 1984, and The Provincial Preference Act.

Recommendations

- School boards should develop and approve formal purchasing procedures to ensure purchases are made in accordance with the policies of the board.
- School boards should prepare and approve guidelines to ensure compliance with applicable legislation and regulations.

Comments on Government Wide Reviews

Movable Fixed Assets

No formal policies and procedures in place

Our survey indicated that over 40% of the school boards had no formal policies and procedures in place for the control over movable fixed assets. Several officials stated that policies and procedures, such as those relating to the physical security of the assets, were left to the individual schools.

No fixed asset ledger being maintained

Our survey indicated that over 70% of the school boards did not maintain a fixed asset ledger and 90% had no inventory tagging system in place.

No annual physical count and reconciliation performed

Our survey indicated that over 65% of the school boards did not perform an annual count of movable fixed assets. The survey also disclosed that 90% of the school boards did not perform a reconciliation of the accounting records to an annual count of fixed assets.

Insurance coverage not adequate

Our survey indicated that 90% of the school boards did not have insurance for theft.

Recommendations

- Assets should be recorded in the school board's fixed asset ledger upon acquisition. This ledger should also be updated for purchases made directly by the schools. In addition, all movable assets should be assigned an identification number and tagged.
- A physical count of movable assets should be conducted at least once a year and the results reconciled to the accounting records. Significant differences should be investigated.
- Assets should be sufficiently insured to ensure that the school board's assets are adequately protected.

Review of Human Resource Management in Government

Other Matters

Enrolment figures not being verified

Our survey indicated that over 80% of the school boards did not verify the enrolment figures received from the various schools.

No formal conflict of interest guidelines in place

Over 80% of those surveyed indicated that conflict of interest guidelines were not formally approved and documented by the school board.

Recommendations

- Student enrolment is the basis for almost all transfer payments, therefore, school boards should verify the information received from the individual schools.
 - School boards should ensure that conflict of interest guidelines are approved, documented, and communicated to the board and staff.
-

3.7

Review of Human Resource Management in Government

Introduction and Background

A basic objective of any responsible government is to provide a maximum level of service while utilizing available resources. To achieve this objective, government and its managers must be held accountable for their use of the resources entrusted to them. Accountability requires recognition of the authority and responsibility of the Legislature to provide resources to government to carry out its programs and that such resources be used only for the purposes intended and within the limits approved by the Legislature.

Government, its Crown corporations, boards and authorities and other entities which depend on transfer payments for their operations, employed an estimated forty-two thousand (42,000) people as at the end of the most recent fiscal year, at a total gross salary estimated at \$1.4 billion. Sections 10, 11, and 12 of the Auditor General Act require that the Auditor General examine disbursements and satisfy himself that there are adequate accounting and management control systems in place over the expenditure of public money. In view of

Comments on Government Wide Reviews

these requirements and considering the amount of public money expended in the area of human resources, we have commenced a three year review of this area.

In this report item, to assist in arriving at estimates and statistics, we have included the various departments, Crown corporations, agencies, hospitals, nursing homes, school boards and post secondary educational institutions. It is noted that many of these entities consist of separate employers, many with the legislative right to establish their own terms and conditions of employment and systems.

Scope and Objectives

The objective of our review is to examine the existing control systems relating to human resources in government and to determine whether there are adequate controls in place to assess government's accountability for its management of human resources and to ensure that its expenditures in this area are properly authorized and approved.

This is a three year project, as follows:

- Year 1 - to quantify public sector human resources in terms of both people and dollars and to identify and document control systems used in recruiting, maintaining and monitoring such resources;
- Year 2 - to perform a detailed review and evaluation of control systems in place over human resources; and
- Year 3 - to develop recommendations relating both to specific control systems identified and evaluated in years 1 and 2, and to make general comments on human resources utilization and management.

In this, the first year of the project, we have completed a preliminary review of the systems and information available in "central" government, including Treasury Board Secretariat, the Public Service Commission, the Department of Finance General Service Payroll Division, the Department of Works, Services and Transportation open vote payroll system, the Department of Forestry and Agriculture open vote payroll system, the Department of Education Teachers Payroll Division and the Department of Health Institutional Services Division.

Review of Human Resource Management in Government

As part of our review, we have developed a questionnaire relating to human resources. This questionnaire was issued to Deputy Ministers or Chief Executive Officers of one hundred and twenty eight (128) entities representing all government departments, Crown corporations, agencies, hospitals, nursing homes, school boards and post secondary educational institutions in the Province.

The basis for our review of the human resources system lies in our analysis of the controls over expenditures by this system. As with any system within government, there should be adequate controls in place to ensure that the expenditure is properly authorized and approved, that there is adequate documentation supporting the expenditure and that the Province's assets are safeguarded and controlled.

Summary of Findings, Conclusions and Recommendations

Summary of Findings

In relation to the present systems relating to human resources, our preliminary review disclosed that

- not all relevant information relating to human resources is maintained;
- there is no one complete system or set of compatible subsystems relating to human resource information for government as a whole; and
- human resource information of a general nature cannot be obtained on a timely basis due to differences in individual system design.

Our review of the responses to our questionnaire disclosed instances of the following:

- organizational goals and operational objectives not being documented;
- annual reports not being prepared;
- problems being reported in obtaining human resources information in replying to government and other requests;
- no comprehensive human resources database being maintained;

Comments on Government Wide Reviews

- no classification review or survey being performed for the organization as a whole;
- no documented human resource performance objectives being reported; and
- periodic performance reviews not being completed.

Conclusions

Given the diversity of responsibilities relating to human resource management and the widespread delegation of these responsibilities, it becomes increasingly difficult for government to establish a strong system of accountability over its management of these resources. In addition, the various systems now in effect are for the most part incompatible and are directed mainly at payroll processing. This presents a problem when attempting to gather information relating to all government sectors, such as in determining the overall cost to government of personnel policies.

Recommendations

Our review to date has resulted in the formulation of several initial recommendations. These recommendations relate to additional emphasis being placed on the overall human resources area, in addition to the payroll processing area. Included are suggestions on organizational emphasis, goal setting and reporting procedures.

Detailed Commentary

Introduction

Human resource management consists of a number of related subsystems. The major subsystems can be identified as follows:

1. Recruitment
2. Position classification and compensation
3. Payroll processing
4. Employee benefit administration

Review of Human Resource Management in Government

5. Training and development
6. Performance monitoring
7. Labour relations

These subsystems have a common base in that they all relate to one area, that being the administration and management of human resources.

Overview of Human Resources in Government

In this Province, within government, overall responsibility for human resource management lies with Treasury Board. Section 6 of The Financial Administration Act, 1973, states in part that *"the Board shall act as a committee of the Executive Council on all matters relating to ... personnel management in the public service and of a public body ..."*.

The specific powers of the Board relating to human resource management are outlined in section 7(2), including references that the Board may

- (a) establish standards of discipline in the public service and prescribe the penalties that may be applied for breaches of discipline;
- (b) determine the manpower requirements and provide for the allocation and effective utilization of manpower resources within the public service and of a public body;
- (c) provide for the classification of positions within the public service and of a public body;
- (d) determine the pay to which persons employed in the public service or with a public body are entitled for services rendered, the hours of work and leave of such persons and any matters related thereto;
- (e) consider proposals for pensions or gratuities, other than such as are specifically provided for; and

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- (f) provide for such other matters, including terms and conditions of employment not otherwise specifically provided for in this subsection, as the Board considers necessary for effective personnel management within the public service and of a public body.

Administration of the human resource program is shared between various departments and divisions, as follows:

1. Treasury Board responsibilities
 - Organization and management
 - Classification and pay
 - Collective bargaining
 - Personnel policy
 - Insurance
2. Public Service Commission responsibilities
 - Recruitment and selection
 - Staff training and development
 - Personnel services
3. Department of Finance responsibilities
 - General service payroll
 - Pension administration
4. Department of Works, Services and Transportation responsibilities
 - Open vote payroll
5. Department of Forestry and Agriculture responsibilities
 - Open vote payroll

Review of Human Resource Management in Government

6. Line department responsibilities

-administration of operational and departmental aspects relating to labour relations, recruitment, payroll and benefit administration, training and development, etc.

7. Crown corporation, agency, hospital, nursing home, school board and educational institution responsibilities

-administration of varied aspects of human resource management. Different entities have differing degrees of responsibilities and autonomy relating to such items as recruitment, compensation, payroll processing, benefit administration, training and development, performance monitoring and labour relations.

Given the diversity of responsibilities relating to human resource management and the widespread delegation of these responsibilities, it becomes increasingly difficult for government to establish a strong system of accountability over its management of these resources. In addition, the various systems now in effect are for the most part incompatible and are directed mainly at payroll processing. This presents a problem when attempting to gather information relating to all government sectors, such as in determining the overall cost to government of personnel policies. A recent example was the Voluntary Retirement Program introduced in 1989. Difficulties were encountered during the initial development stages of this program in that age and service information was not always readily available to assist in projecting the level and cost of implementation.

Human Resource Management Information System

We note that Treasury Board Secretariat is currently conducting a review of human resources, which is to result in a new Human Resources Management Information System (H.R.M.I.S.) for government. As stated in Secretariat documents, "Government recognized some time ago the need for more advanced systems to manage its financial resources. It has since recognized the same need to automate its human resource systems to enhance its effectiveness in managing its human resources (employees) from operational, managerial and strategic planning perspectives. Subsequently, in the fall of 1987 Government established a Steering Committee to review the need for and the development of a comprehensive computerized

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Human Resource Management Information System (H.R.M.I.S.). This Steering Committee first met in December of 1987. Subsequent to this, the Committee defined the boundaries of the H.R.M.I.S. Project, as outlined in the Project Scope Document dated February 1989, and structured the various teams/committees necessary to complete the first phase of the project." The six project teams initiated were as follows:

- Position Administration, Classification and Recruitment Study Team;
- Payroll Processing Study Team;
- Employee Services Study Team;
- Departmental Study Team;
- Policy, Collective Agreements and Legislative Support Team; and
- Leave/Attendance Management Team.

During the implementation stage of the H.R.M.I.S. project, there are four main documented milestones:

- to create a unique standardized record for each employee within government;
- to integrate all government positions into the system;
- to add new essential human resources data to the system; and
- to integrate the remaining functional areas resulting in a complete system, for example, leave management, service recognition and performance appraisal.

Treasury Board Secretariat's H.R.M.I.S. project is not expected to be completed until at least early 1993. We anticipate that the project will result in substantial enhancements to the present systems of human resource management.

Review of Human Resource Management in Government

Human Resources Questionnaire

As part of our review, a questionnaire was developed which was issued to Deputy Ministers or Chief Executive Officers of one hundred and twenty eight (128) entities representing all government departments, Crown corporations, agencies, hospitals, nursing homes, school boards and educational institutions. The questionnaire was devised to provide much of the statistical and general systems information required for completion of Phase 1 of the review. The questionnaire was divided into nine (9) sections as follows:

- A. General organizational and human resource questions
- B. Recruitment
- C. Position classification/compensation
- D. Payroll processing
- E. Employee benefit administration
- F. Training and development
- G. Performance monitoring
- H. Labour relations
- I. Other matters

Of the one hundred and twenty eight (128) questionnaires issued, one hundred and nineteen (119) were returned. Entities not responding were contacted but at report date their questionnaires had not been received at this Office. The level of detail included in the responses varied greatly, however, our initial review of the replies did provide useful information. In the second year of our review, we will attempt to obtain completed questionnaires from those entities not responding to our initial requests. We will also follow-up on a test basis the data contained in the returned questionnaires.

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Detailed Findings

Essential attributes of information resulting from any system include relevance, completeness and timeliness. In terms of the present systems used by government relating to human resources:

- not an relevant information relating to human resources is maintained;
- there is no one complete system or set of compatible subsystems relating to human resource information for government as a whole; and
- human resource information of a general nature cannot be obtained on a timely basis due to differences in individual system design.

As this is the first year of a three year review of human resources in government, specific findings and conclusions will be included in future reports. However, certain items came to our attention, resulting mainly from our questionnaire responses, that may be informative.

The highlights of the responses to our questionnaire are provided below. Given the varying amount of detail given and the sometimes differing question interpretations, definitive information cannot be provided at this time. The following information is a summary of certain responses given under each of the questionnaire headings as outlined above:

A. General organizational and human resource questions

- many entities reported that no formal organizational program goals and operational objectives were documented;
- many entities reported that annual reports are not prepared;
- several entities reported problems obtaining human resource information in replying to government or other requests;

Review of Human Resource Management in Government

- the total number of employees and the total gross salary during the most recent fiscal year is estimated at forty-two thousand (42,000) and \$1.4 billion respectively;

- the percentage of employees in each of the following classifications, as reported to us, are:

-executive	1.14%
-management	9.06%
-unionized	78.68%
-non-bargaining/non-management	8.31%
-other	2.81%

- of those organizations reporting employees who are regularly stationed outside of the organization's main headquarters area, the average percentage of such employees was fifty-six percent, with a high of ninety-nine percent and a low of less than one percent; and
- many entities reported that no comprehensive database was maintained relating to human resources information.

B. Recruitment

- a total of over 4,000 positions were reported to have been filled in the most recent fiscal year, including both permanent and temporary/casual positions; and
- while some increases and decreases were reported, the rate of employee turnover has remained relatively constant over the last five years.

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C. Position classification/compensation

- while some organizations reported that they perform their own classification function, most reported that this function is performed by the Classification and Pay Division of Treasury Board Secretariat;
- several entities reported that they had never had a classification review or survey performed for their organization as a whole; and
- of those organizations reporting that individual classification reviews had been performed in the most recent fiscal year, a significant number of classification changes were reported resulting from these reviews.

D. Payroll processing

- of those entities reporting overtime worked, the total overtime hours worked approximated 835,000 at a total paid cost of \$19,200,000. It is noted that in many of the reported instances, time off in lieu of overtime hours worked was taken in place of monetary compensation.

E. Employee benefit administration

- sick leave and family responsibility leave for those entities reporting such information, appears to be at an average of 7.54 and .77 days per year respectively. The projected total annual salary cost related to these leave types, for all entities, based on these averages, is \$40,000,000 for sick leave and \$4,100,000 for family responsibility leave. Replacement costs for those employees who are replaced during periods of leave would be additional to that projected above. Questionnaire responses in the area of replacement costs did not contain sufficient information to enable any type of reliable projection. Leave provisions and related costs will be dealt with in more detail in a future report.

Review of Human Resource Management in Government

F. Training and development

- of those entities reporting a cost figure relating to training for the most recent fiscal year, the total was \$5,600,000; and
- in many cases, it was reported that employee progression in training and development is not monitored.

G. Performance monitoring

- many entities reported that no documented performance objectives exist relating to the use of human resources;
- many applicable entities reported that they were not following the Management Performance Review Program administered by the Public Service Commission; and
- many entities reported that periodic performance reviews are not completed for all employees.

H. Labour relations

- of those entities reporting that grievances were filed, a total of over nine hundred and sixty were reported of which over six hundred and eighty were settled without going to arbitration;
- many organizations reported that no active Labour/Management Committee exists, and of those reporting such a committee, several reported infrequent meetings; and
- several entities reported that no active Occupational Health and Safety Committee exists.

I. Other matters

- of those entities reporting that consultants had been engaged during the last five years, most reported the use of such consultants remained relatively constant; and

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- ① very few entities reported that an internal audit function existed, and of those reporting that such a function exists, only three reported any kind of review of human resource systems.

Recommendations

As previously stated, detailed recommendations will result from our systems reviews in the second and third years of this project. However, our review to date has resulted in the formulation of the following initial recommendations:

- ① additional emphasis should be placed on the overall human resources area in addition to the payroll processing area;
- ② goals should be established and documented which focus attention on most important problems and priorities relating to human resource management;
- ③ goals should provide an objective basis for measuring performance;
- ④ Treasury Board Secretariat should work with departments/agencies to consolidate goals and to establish a human resource development plan for government as a whole;
- ⑤ annual organizational performance reviews relating to human resource management should be instituted; and
- ⑥ in many cases, human resource costs are often the single most important component of spending. Budget documents and annual reports should disclose information relating to the utilization of human resources.

3.8 Annual Reports of Departments and Agencies of Government

Introduction

In our previous Reports we recommended that all departments and agencies prepare, for the Minister responsible for subsequent tabling in the Legislature, a detailed annual report on their operational and financial activities. We feel that such reports are a critical part of the system of accountability, financial management and control, and

Annual Reports of Departments and Agencies of Government

reporting. We believe that all those who have control over public funds should be held specifically accountable to the Legislature for their use of such funds. The Legislature has addressed the issue by requiring the issuance of annual reports as the Lieutenant-Governor in Council may prescribe. However, we understand that the Lieutenant-Governor in Council has not made the preparation of annual reports mandatory.

As with our previous reviews, our aim in the current year was to determine whether annual reports were being completed and filed. We requested that departments and agencies provide us with a copy of their most recent annual report. We did not set out to assess the content or the timeliness of such reports. We plan to address that matter in detail in a future report.

Our review disclosed that the majority of the Crown corporations, boards and authorities, particularly the larger ones, were issuing some form of annual report.

We note that Treasury Board recognized the importance of annual reports by issuing direction to the various departments and agencies. Treasury Board Minute 642-'90, dated 16 October 1990, authorized a format to be adopted for annual reports. This Minute also gave specific direction relating to the distribution and retention of such reports. However, despite this clear direction, the Board still left the preparation of such reports to the discretion of the departments, Crown corporations and agencies.

Conclusion and Recommendation

An important component of a strong accountability process is the reporting, by those to whom resources have been provided by the Legislature, on the utilization of these resources. This system of reporting, supported by a strong system of financial management and control, requires that government, its departments and agencies which are granted funds be held accountable for the use of such funds based on their approved goals. Those who have control over public funds should be held specifically accountable to the Legislature for their use of such funds.

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As a result of our review of this matter, we repeat our recommendation that all departments and Crown corporations, boards and authorities prepare, for the Minister responsible for subsequent tabling in the Legislature, a detailed annual report on their operational and financial activities.

This report should be an accountability document which is complete, reliable, understandable, and timely. In Part 2.4 of this report we make recommendations for a suggested framework for Accountability, Financial Management and Control, and Reporting.

The Office of the Auditor General can play a valuable role by providing assurance on representations made in annual reports provided the representations are based on definitive measurement and reporting standards and practices. However, we cannot complete an assessment of the content and suitability of annual reports if such reports are not prepared. Accordingly, we recommend that their preparation and tabling be mandatory.

3.9 Audit of Various Federal -Provincial Cost Sharing Agreements

In addition to the primary mandate as outlined in Part 1.4 of this Report, the Office of the Auditor General performed audits and issued reports on claims submitted by the Province to the Government of Canada under various Federal-Provincial Cost Sharing Agreements. This placed us in a position where we had to assign resources, which were previously utilized for other audit work, to the audit of claims. In addition, this also placed us in a position where we were required to play a role as part of a system which we were ultimately required to audit.

As a result of a review of our mandate, we now report that we no longer conduct audits of Federal-Provincial Cost Sharing Claims. We have informed departments and agencies involved in Federal-Provincial Cost Sharing Agreements that we no longer perform the audits of these claims. To facilitate a smooth transitional process, we agreed to complete the audits of any claims relating to the 31 March 1991 and prior years submitted to our Office by 31 December 1991.

Provincial Pension Plans

3.10 Provincial Pension Plans

Introduction

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its employees and those of its agencies, boards and commissions and for members of its Legislature. There are four main plans - the Public Service Plan, Teachers' Plan, Uniformed Services Plan and Members of the House of Assembly Plan. The plans provide pensions based on length of service and final average earnings. The pension plans do not provide for indexing of pensions for retirees. At present, the plans provide benefits for approximately 7,800 retirees.

Commentary

In accordance with The Pensions Funding Act, the Province established the Pooled Pension Fund in 1980. All employee contributions together with matching employer contributions are deposited in the Fund and benefits to plan members and other pension payments are payable from it. In the event the accumulated assets of the Fund are insufficient to meet benefit payments, the Province is required to meet any excess obligations through a system of deficiency payments.

For the year ended 31 December 1990 pension benefits payments were approximately \$91 million. As at 31 December 1990, assets (at cost) of \$604.7 million have been accumulated for two of the plans (\$454 million for the Public Service Plan and \$150.7 million for the Teachers' Plan). Actuarial valuations are performed triennially using the accrued benefit (single premium) method with salary projections. As reported in Note 3 of the 1990-91 Public Accounts, as at the most recent valuation dates, accrued benefit obligations totalled \$2.4 billion, while the fund assets totalled \$463.3 million, leaving a net unfunded liability of \$1.9 billion.

Recently, Government enacted legislation which has made changes to the pension plans which are intended to place them on a sound financial footing. These changes included benefit modifications and contribution increases.

Further details regarding Provincial Pension Plans may be found in Note 3 of the 1990-91 Public Accounts.

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In November 1988, the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants issued its Public Sector Accounting Statement 5 - Accounting for Employee Pension Obligations in Government Financial Statements. That statement contains recommendations relating to the accounting for pension obligations and provides guidance for the implementation of such recommendations in government financial statements.

PSAAC states that pensions are a form of compensation offered for services rendered and accrue over the years the employees render those services. Accordingly, it makes the following recommendation: *"The statement of financial position should account for the pension liability and the statement of revenues and expenditures should account for the pension related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."*

In the 1990-91 Public Accounts of the Province the unfunded employee pension liability of \$1.9 billion, based on the most recent actuarial valuation, was recorded in the Statement of Assets and Liabilities. In prior years, this liability was disclosed in the notes to the financial statements. However, in the 1990-91 Public Accounts, no provision is made for the increase in liability since the last actuarial valuation.

Also, the Statement of Revenue and Expenditure does not reflect the actual value of pension benefits earned by employees during the year. It reflects the Province's contributions to the Pooled Pension Fund on a cash basis in accordance with existing accounting policies as disclosed in Note 1 of the Public Accounts.

Conclusion and Recommendations

We support the actions taken by Government to recognize and address the funding deficiencies in the pension plans, and also their policy of now recording unfunded employee pension liabilities on the Statement of Assets and Liabilities.

However, the recommendations of the Public Sector Accounting and Auditing Committee also require that the value of pension benefits earned by employees during the year be recorded in the Statement of Revenue and Expenditure. This recommended accounting treatment

Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

will require further study in conjunction with the Province's review relating to the adoption of the accrual basis of accounting.

3.11 Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

Introduction

Newfoundland and Labrador Computer Services Limited (NLCS), a Government owned and controlled Crown corporation, was created to provide centralized data processing services for Government. To provide guidance and assistance to departments, Government, through Minute of Council 1217-'88, has delegated responsibility for approving electronic data processing policy and procedures to Treasury Board (the Board). Treasury Board Secretariat (the Secretariat) has issued the Government of Newfoundland and Labrador Electronic Data Processing Policy and Procedures Manual (the Manual).

During the year, in order to evaluate the policy and procedures and controls pertaining to electronic data processing within Government, we have performed a review of mainframe computer operations and the Manual. This review addressed two distinct areas: first a review of controls at NLCS to determine the degree of reliance which could be placed on them, and second, a review of the Manual to determine whether all significant issues pertaining to mainframe systems were addressed and whether departments and the Secretariat were complying with the policy and procedures. We note that in Part 3.12 of our 1990 Report we reported on the review and evaluation of microcomputer policies and procedures included in Chapter 8 of the Manual.

Background

To understand the data processing environment currently within Government, we have to look at the evolution of NLCS and the assignment of the various roles and responsibilities required to formulate policy and procedures to direct Government's electronic data processing (EDP) activity. To this end we note the following:

NLCS was created in 1969 by Minute of Council 580-'69 to centralize the data processing and computing facilities of Government, its various agencies and Memorial University. To perform the data processing and related system development and maintenance work

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required by Government users. NLCS currently has a staff complement of approximately 200 and had expenditures in excess of \$19,000,000 for the year ended 31 March 1991.

In October of 1981 Minute of Council 1193-'81 stated in part *"Ordered that a Data Processing Co-ordinating Committee be and it is hereby established for the purpose of co-ordinating data processing activity within Government..."*. In June of 1983 Minute of Council 832-'83 stated in part *"Ordered that the responsibility within Government for electronic data processing planning, policy development and consulting be assigned to the Treasury Board Secretariat, to be performed in consultation with the Data Processing Co-ordinating Committee and the Board of Directors of the Newfoundland and Labrador Computer Services Corporation."*

In response to the need for a formal written policy and procedures manual to provide guidance and assistance to departments in the use of electronic data processing within their operations, the Secretariat prepared the Government of Newfoundland and Labrador Electronic Data Processing Policy and Procedures Manual. Minute of Council 868-'85 stated in part *"Ordered that approval be given to the policies and procedures summarized in, and that the Treasury Board Secretariat be authorized to issue... the... Manual to Departments and to monitor their compliance..."*. Chapter 1 MANAGEMENT OF THE MANUAL page 2 states in part that *"The Organization and Management Division of the Treasury Board Secretariat is responsible for the preparation and maintenance of this Manual."* Chapter 2 EXECUTIVE SUMMARY pages 2 and 3 state in part that *"This manual is intended to assist users of electronic data processing (EDP) within the Government of Newfoundland and Labrador by providing policies, procedures and guidelines to be followed in acquiring and administering the EDP resources required to support government programmes."* In September 1988 Minute of Council 1217-'88 stated in part *"Ordered that the delegation of responsibility for approving Electronic Data Processing Policy and Procedures by Treasury Board, is approved."*

The original Manual was issued in 1985 and remained without change as at 31 March 1991. However, we note that a new manual was issued in September 1991.

Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

Scope

Review of NLCS

We performed a review of the NLCS computer facility and reported our findings to the President and the Chairman of the Board in July 1991. The objective of our review was to determine the level of operational integrity and management controls within the NLCS environment and the degree of reliance which may be placed on them. The review was performed as part of our ongoing audit procedures and as such was not intended to provide assurance to the management or board of directors of NLCS or to private sector auditors as to the adequacy or completeness of controls in place at NLCS.

Our procedures included the following:

- i) interviews with directors, selected managers and various other staff;
- ii) tours of the computer installation, including an off-site storage location;
- iii) review of the various standards and procedures manuals; and
- iv) tests of selected practices and procedures.

Review of the Manual

The Manual details policy and procedures governing mainframe computer systems that must be adhered to by departments, the Secretariat and NLCS in the following areas:

- i) EDP budget preparation;
- ii) systems development; and
- iii) system operation.

We reviewed the Manual as it existed on 31 March 1991 to determine whether it addressed all significant issues relative to mainframe electronic data processing. Our research into the contents of the Manual included a review of professional pronouncements and a

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review of EDP policy statements from three other Provincial jurisdictions. We visited the Secretariat and three departments where we reviewed certain application systems to measure compliance with the policy and procedures included in the Manual. Our review consisted of enquiry and discussion with officials in the departments to assess compliance with the Manual. We did not perform a detailed review of the systems examined to specifically determine the existence of accounting or EDP control weaknesses.

Findings

Review of NLCS

We conducted a review of NLCS to determine the level of operational integrity and management controls and the degree of reliance that could be placed on them. As a result of our review, we issued a report in July 1991 detailing our findings along with seventy-seven recommendations that, in our view, would improve existing procedures and controls. In their response to our report, NLCS noted that a large number of our recommendations had either already been implemented or were in the process of being addressed. The following are the more significant issues included in our report to NLCS.

Strategic Planning

We noted through our observations and discussions with officials of NLCS that Government policy in the areas of development and compatibility of computer systems is not clearly defined. Policies to indicate the direction of Government computer data processing should be formulated at the highest level of Government, communicated to NLCS and used in the development of its role and mandate statement. We note that consultants were recently engaged to conduct a study of information that could be used to ensure that the role and mandate of NLCS is synchronized with the expectations of Government and the users of the facility. Subsequent to this initiative, Cabinet Directive 1185-'91 issued on 22 August 1991 approved a role and mandate for NLCS which we have not yet reviewed.

The Secretariat is taking measures to address the direction of Government data processing. In a letter dated 25 July 1991, the Secretary of Treasury Board requested that we submit a written brief in response to a number of key issues that had been identified as a necessary prerequisite pertaining to the establishment of strategic

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directions for information technology within government. A small team had been established with the following objectives:

- to identify Government wide (corporate) strategic directions for the management and use of information technology; and
- to support these strategies with policy directives, guidelines and standards necessary for effective implementation.

The information received from departments will be used to derive a Framework for Future Information Technology Development in Government and will subsequently be presented to Government's EDP Advisory Committee, Treasury Board and Cabinet for approval.

Continuity of Operations

In our 1985 installation review report to NLCS, we recommended that *"... a formal risk assessment be completed for your installation as soon as possible."* In response to this recommendation it was indicated that a recommendation had been put forward to Treasury Board that would provide for a Government wide classification system for computerized data. The response went on to indicate that *"An affirmative response has been received to this recommendation, and activity in this area should commence in the very near future resulting in a report by mid-February, 1986."* Our review of the current situation indicates that a formal risk analysis has still not been conducted. Without the completion of a risk analysis it is very difficult to determine whether or not management has adequate visibility into its exposures. A risk assessment provides a measure of cost exposure relative to one another and is a necessary precondition for the rational selection of protective measures.

Contingency Plan

No formal procedure was implemented to obtain and analyze owner input to determine which applications should be considered critical and to assign a priority based on this information. Instead, NLCS management made their own determination as to the appropriate priority that should be assigned to the various applications in the event of a disaster recovery procedure. A review of the application listing included in the Disaster Recovery Manual revealed that only a portion of the applications run at NLCS were included and prioritized. Of particular significance is the fact that two significant financial

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applications were not included on the priority schedule. We understand that this was an oversight and that these applications would be provided with an appropriate priority in the event of a disaster.

Review of the Manual

Established Policy and Procedures

Our review of the Manual indicated that the following issues pertaining to mainframe systems were not adequately addressed.

- the Manual states in part that adherence to the policy and procedures "*... is required by all Departments of the Government...in accordance with Cabinet Directive 868-'85 ...*". It appears that EDP policies and procedures have not been prescribed for Crown corporations, boards and authorities with the resulting possibility that incompatible equipment may be acquired within the broader framework of Government. The acquisition of incompatible equipment may impair the shareability of data within the Government community;
- the Manual requires that systems development methodology (SDM/70) must be used unless there are valid reasons for doing otherwise. Where SDM/70 is not used for systems developed by NLCS, the Manual does not specify minimum documentation standards;
- the Manual states in part that departments are responsible to "*...measure and evaluate the effectiveness and performance of it's EDP activities...*". The Manual does not provide guidelines that would: require a formal report; advise on the format a report would follow; indicate reporting frequency; and distribution of the report;
- the Manual does not address the issue of record retention in accordance with the requirements of The Archives Act and the Public Records Committee; and
- the Manual does not assign specific responsibility for the research of new EDP technology. It appears that this role is being performed informally by NLCS with contributory input by the Secretariat.

Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

Compliance with Established Policy and Procedures

Our evaluation of compliance with the Manual within the Secretariat and three departments disclosed the following:

Treasury Board Secretariat

- Chapter 1 MANAGEMENT OF THE MANUAL page 2 states in part that *"The Organization and Management Division of the Treasury Board Secretariat is responsible for the preparation and maintenance of this Manual."* We note that the Manual had not been updated with respect to mainframe computing prior to the issuance of a new manual in September 1991.
- Minute of Council 868-'85 ordered in part that *"... approval be given to the policies and procedures summarized in, and that the Treasury Board Secretariat be authorized to issue... the... Manual to Departments and to monitor their compliance..."*. There is no formal system in place within the Secretariat to monitor department's compliance with all policy and procedures prescribed in the Manual. However, we note that all EDP activities with financial implications are considered by the Secretariat in the annual budgetary process and there is interaction on a regular basis with departments on EDP matters.
- Chapter 2, page 10 states in part that the Secretariat is responsible to *"co-ordinate the EDP long range planning exercise with Departments and consolidate their three-year plans into an overall three-year plan for Government."* We have been informed by officials at the Organization and Management Division of the Secretariat that this is no longer being performed. We understand from discussions with officials at the departments that, upon instruction by the Secretariat, they stopped preparing the three-year plan in 1990-91. We were informed by officials of the Secretariat that they decided that it would be more useful to replace the three-year plan with an information technology plan.

Departments

- Chapter 2, page 8 of the Manual states in part that *"Each Department should...develop and maintain a three year EDP plan."* We found that none of the departments had, in fact, prepared the required three year plan for the 1990-91 fiscal year.

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- Chapter 2, page 8 of the Manual states in part that *"Each Department should...measure and evaluate the effectiveness and performance of it's EDP activities and take remedial action if necessary."* Our review disclosed that there was no formal process in place at the departments to measure and evaluate the effectiveness and performance of their EDP activities.
- Chapter 5, page 24 of the Manual states in part that *"Departmental project managers and other personnel assigned to projects should acquire an understanding of the estimating process and participate in the preparation of estimates."* There was a perception in one department that this requirement was the major responsibility of NLCS. This approach, we feel, precludes the department from providing effective and knowledgeable input into the preparation of project cost estimates.
- Chapter 5, page 9 of the Manual states, in part, *"For financial systems, where appropriate, the Department (Finance) will provide a member of the Internal Audit Group to assist with the development of controls and/or review the adequacy of those that have been developed by the Project Team."* We were informed during discussions with the Internal Audit Division that they do not become involved with the development of controls and have only participated in a review of controls.
- Chapter 11, page 23 of the Manual states in part that *"...NLCS have standing arrangements to run crucial systems at another computer site if necessary. Departments should be aware of these plans and should determine whether or not their systems are rated as being in the crucial category. Departments should review their backup requirements and, where necessary and possible, have a contingency plan to function at a reasonable level in the event of an extended outage at the NLCS computer centre."* Our review indicated that departments have neither documented a disaster recovery plan to coordinate activities with NLCS nor have they documented a contingency plan for the operation of crucial systems in the event of an extended outage.
- Chapter 11, page 11 requires that departments, where necessary, ensure that their systems contain restart procedures which will permit quick and easy recovery from system failures. We note that neither of the two on-line systems checked had documentation on file to explain the restart procedures that had been developed.

Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

Conclusions and Recommendations

As a result of our review of NLCS, the Manual, and compliance with policy and procedures by Treasury Board Secretariat and selected departments we have concluded as follows:

Review of NLCS

NLCS has played a key role in the development of EDP technology and financial systems for government. The fact that NLCS was created to provide centralized data processing for government has resulted in an organization that has for the most part taken the lead role and influenced departments to ensure that system development standards and operational controls were adhered to. As a result of the involvement of NLCS in the processing of financial transactions for government, we have to consider the level of operational integrity and management controls in place in order to determine the amount of reliance we can place on the financial information that we audit. Our review of NLCS has indicated that controls are generally good and, as a result, this increases the reliance which we may place on the financial information produced. We note that the review was performed as part of our ongoing audit procedures and as such was not intended to provide assurance to the management or board of directors of NLCS or to private sector auditors as to the adequacy or completeness of controls in place at NLCS.

In our view, the following recommendations would further strengthen controls at NLCS:

- to ensure that all possible exposures have been considered and addressed, a formal risk analysis should be developed and performed with appropriate priority;
- client input should be obtained to determine which applications are considered to be critical and to determine the priority level that should be assigned; and
- clarification of the role and mandate of NLCS is necessary. Policies to indicate the direction of Government computer data processing should be formulated by Government and communicated to NLCS and used in the development of its role and mandate statement.

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Review of the Manual

The Manual has served as the vehicle through which the Treasury Board has prescribed the policy and procedures that it requires departments to follow. The Manual has undoubtedly provided a source of reference to assist users of EDP within Government in acquiring and administering the EDP resources required to support government programs. We note, however, that, since its issuance in 1985, the Manual had not been updated as at 31 March 1991 and as such our view is that it is dated and in need of revision. In addition to being dated, the Manual is quite general in certain areas and, as such, departments have little if any guidelines to follow. We note that subsequent to the date of our review the Secretariat issued a revised manual in September 1991. Adherence to the policy and procedures in the Manual is presently required by all departments of Government, however, similar policy and procedures have not been developed for Crown corporations, boards and authorities.

In our view, the following recommendations would further improve the Manual as it existed on 31 March 1991:

- all changes to policy or procedures included in the Manual should be communicated to Manual holders by way of revision update;
- the Manual should contain sufficient detail to enable departments to clearly understand and comply with the policy requirements;
- the Manual should be kept current and changes in technology and policy and procedures should be communicated to departments on a timely basis so that they can comply with the requirements;
- the Manual should be expanded to include policy and procedures appropriate for Crown corporations, boards and authorities; and
- responsibility for the research of new EDP technology should be specifically assigned and explained in the Manual.

Compliance with the Manual

In order for the Manual to be effective and provide the desired results, users have to be aware of and comply with its provisions. We note that, although departments have complied in many cases with the overall requirements of the Manual as it existed at 31 March 1991,

Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual

noncompliance with the Manual in certain areas was common and, as such, stricter adherence should be enforced. Of particular concern is the lack of effort by departments in the development of formal written procedures to address disaster recovery and contingency plans for their systems.

In our view, the following recommendations would improve compliance with the Manual:

Treasury Board Secretariat

- as directed by Minute of Council 868-'85, the Secretariat should monitor departmental compliance with the requirements of the Manual;
- the Secretariat should ensure that the Manual is current and reflects the policy and procedures that departments are required to follow;
- the Secretariat should clearly identify mandatory departmental requirements along with sufficient detailed procedures so that there will be no misunderstanding of departmental responsibilities; and
- the Secretariat should consider that, although a requirement in the Manual, the Internal Audit Division of the Office of the Comptroller General of Finance has indicated to us that they do not become involved with the development of controls in EDP systems.

Departments

- the development of a formal written disaster recovery plan and contingency plan is a critical component for ensuring the continuity of departmental computer operations in the event of a disaster and should be completed with appropriate priority;
- departments should have documentation on file to explain restart procedures to be followed for quick and easy recovery from system failures;
- departmental personnel assigned to development projects should acquire an understanding of the estimating process and participate in the preparation of estimates; and

Comments on Government Wide Reviews

-
- departments should have a formal process in place to measure and evaluate the effectiveness and performance of their EDP activities.
-

3.12 Net Foreign Exchange Losses

For several years we have reported that net foreign exchange losses had been classified as non-budgetary items and had not been charged as expenditure. This situation has not changed for 1990-91.

The Statement of Excess of Liabilities over Assets in the Public Accounts for the year ended 31 March 1991 shows a net foreign exchange loss totalling \$4,959,000, comprised of total payments of \$11,260,000 less total receipts of \$6,301,000. This loss resulted from payments during 1990-91 by the Province to redeem debt or to make contributions to sinking funds in foreign currencies, the cost of which exceeded the historical Canadian dollar equivalent of the debt carried in the accounts of the Province. The amounts paid were not charged to expenditure but were classified as non-budgetary items and reported in the Consolidated Fund Services Summary of Cash Payments and Receipts for 1990-91.

The Deputy Minister of Finance has stated that "... *foreign exchange gains and losses relating to principal and sinking fund payments have the effect of reducing or increasing the amount of the loan to be repaid and is therefore a non-budgetary item.*" The Comptroller General of Finance has indicated that net foreign exchange losses are shown in the approved Estimates as a non-budgetary item and consequently are reported as such in the Public Accounts.

However, other debt expenses, such as discounts and commissions relating to the issue and sale of the Province's debentures are classified as current expenditures in the Consolidated Fund Services Statement of Expenditure and Related Revenue. The expenses of servicing the Province's debenture debt, excluding redemption payments, are charged as current expenditures.

The Deputy Minister of Finance has indicated in the past that the accounting treatment of foreign exchange gains and losses will have to be considered in the Province's review of the possibility of adopting the accrual basis of accounting. We have reported on this matter for several years and believe that the current manner of budgeting and accounting for these transactions could be changed and still be

**Net Foreign
Exchange Losses**

consistent with the overall basis of accounting presently used by the Province.



CHAPTER

4

COMMENTS ON DEPARTMENTAL AUDITS

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Chapter

4

Comments on Departmental Audits

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Comments on Departmental Audits

4.1 Introduction

The comments contained in this Chapter pertain to our audit observations and recommendations resulting from audits of specific departments. During the current year we performed extensive reviews of the systems of control over Transfer Payments made by the Province to various entities. Our comments and recommendations resulting from these audits which are applicable to specific departments are presented in this Chapter. The departmental audits are listed in Appendix I.

Additional information relating to prior years' Report comments on the various departments is presented in Chapter 6 of this Report.

4.2 Current Account Revenue General Comment Department of Finance

The Statement of Revenue, Expenditure and Related Revenue by Department, Statement No. 6 of the Public Accounts, shows total current account revenue of \$2,566,547,000. Details concerning the amounts which are classified as current account revenue appear in Schedule K of the Public Accounts and the notes thereto.

In summary, the total comprises: (\$000)

Payments received from the Government of Canada	<u>1,149,936</u>
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Provincial income taxes
collected and remitted
by the Government of
Canada-

Personal income tax	454,676
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Corporate income tax	<u>52,585</u>
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	<u>507,261</u>
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Newfoundland Liquor Corporation and the Newfoundland Liquor Licensing Board	82,425
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Audit of Provincial Income Taxes

Department of Finance

Retail sales tax	546,789
Gasoline tax	88,495
Mining tax and royalties	21,252
Tobacco tax	54,645
Other taxes, privileges, licences, permits, etc., collected by government departments, less refunds	<u>145,744</u>
	<u>909,350</u>
	<u>\$2,566,547</u>

4.3

Audit of Provincial Income Taxes Department of Finance

As we have previously reported to the House of Assembly, both personal and corporate income taxes imposed by the Province are, by agreement, collected by the Government of Canada on behalf of the Province. However, due to the provisions of the tax collection agreement, the Auditor General of the Province is unable to perform all of the audit work required to express an opinion on the provincial tax revenue from these sources. As a result, our Office relies on audit work performed each year by the Auditor General of Canada.

The latest available report of the Auditor General of Canada is on the statement of income taxes payable as at 31 March 1991 to the provinces and territories for the 1989 and prior taxation years. We report that the Auditor General of Canada has stated that, in his opinion, the statement of income taxes payable to the provinces and territories presents fairly, in all material respects, the income taxes payable to the provinces and territories in accordance with the relevant accounting provisions of the tax collection agreement.

We note that the Auditor General of Canada in Chapter 14 of his Annual Report for the year ended 31 March 1989 made certain comments which were outlined in our 1989 Report. The Auditor General of Canada anticipates conducting a follow-up review to Chapter 14 of his 1989 Annual Report.

Comments on Departmental Audits

We also note that the Auditor General of Canada in Chapter 24 of his Annual Report for the year ended 31 March 1990 commented on his audit of the Department of National Revenue, Taxation - program for enforcing the Income Tax Act. His objective was to determine whether this program was managed economically and efficiently, with adequate measures of performance, and whether Parliament is kept informed of results. The following main points were reported:

- "24.1 *A significant amount of taxable economic activity in Canada goes untaxed. The Department devotes one-third of its resources to enforcement activities. These activities resulted in more than one billion dollars of additional tax assessments in 1989/90.*
- 24.2 *Audits and other manual enforcement actions are taking longer in recent years. At the same time, coverage of the population has declined to such a low level that it is a cause for concern whether enforcement currently acts as an effective deterrent to non-compliance.*
- 24.3 *Improvements in productivity and coverage are possible. Computer matching and reporting requirements can be expanded, better methods can be used to select taxpayers for enforcement action, and greater use can be made of technology.*
- 24.4 *The Department is not adequately equipped to ensure the availability of the right number and quality of human resources in the face of very challenging circumstances. However, management has developed a detailed plan of action to address many human resource problems.*
- 24.5 *Information on enforcement resources and results in Part III of the Estimates is incomplete and inconsistent."*

These main points should be read in conjunction with the detail presented in Chapter 24 of his Report.

We will continue to monitor further activity in this area relating to Provincial tax revenue from this source.

Review of Remissions Granted in the Department of Finance under the Authority of Taxing Legislation Department of Finance

4.4

Review of Remissions Granted in the Department of Finance under the Authority of Taxing Legislation Department of Finance

Introduction

The Tax Administration Division of the Department of Finance is responsible for the enforcement of the various Provincial Statutes relating to taxation including the maintenance of appropriate records, the collection of required revenues and the audit of records maintained by vendors.

The various Provincial Statutes dealing with taxation generally provide authority to the Minister of Finance to grant a remission of interest and penalties which have been properly assessed under the various taxing statutes.

For the 1990-91 fiscal year, the Department's records indicate that remissions were granted under the authority of the following taxing statutes as follows:

1. The Retail Sales Tax Act, 1978	\$710,359
2. The Tobacco Tax Act, 1986	413,890
3. The Gasoline Tax Act, 1978	3,254

We reviewed the Department's records relating to these remissions and now include our specific comments pertaining to this review.

Findings

The Retail Sales Tax Act, 1978

Section 66 of The Retail Sales Tax Act, 1978, provides the authority to the Minister of Finance to grant a remission for any penalty or interest imposed by sections 53 to 55 of the Act.

Section 68(!) of the Act provides that "... the Lieutenant-Governor in Council may assign to any officer of the Department of Finance designated by him the performance of any of the duties and the exercise of any of the powers imposed or conferred on the Minister by or under this Act." As a result, authority to grant remissions under section 66 of this Act has been delegated for amounts not exceeding \$500 to certain officials of the Department.

Comments on Departmental Audits

We reviewed a report of all remissions granted for Retail Sales Tax for the 1990-91 fiscal year. Based on our review of this report, we make the following observations:

- For the 1990-91 fiscal year, 2,338 remissions were granted totalling \$710,359.18 ranging in value from 5 cents to \$90,951.68.
- There were 48 remissions granted in excess of \$1,000 each totalling \$528,180.63. The remaining 2,290 remissions granted for 1990-91 totalled \$182,178.55.
- 227 accounts received more than 1 remission during the 1990-91 fiscal year.
- 15 accounts were granted partial remissions under The Retail Sales Tax Act, 1978, with the remaining balance submitted to Treasury Board and written off by Treasury Board under authority of section 18 of The Financial Administration Act, 1973.

Our review involved examining all remissions greater than \$1,000 and a random sample of remissions less than \$1,000 in order to determine whether

- proper approvals had been obtained within the Department prior to the granting of the remission; and
- sufficient documentation existed to support the granting of the remission of interest and penalties requested.

Our findings relating to the remissions we examined were as follows:

- generally, proper approvals had been obtained for remissions under The Retail Sales Tax Act, 1978; and
- we were able to satisfy ourselves that sufficient documentation existed to support remissions granted for interest and penalties.

The Tobacco Tax Act, 1986

Section 64 of The Tobacco Tax Act, 1986, provides the Minister of Finance with the authority to grant a remission of penalty and interest imposed under sections 47 to 51 of this Act.

Review of Remissions Granted in the Department of Finance under the Authority of Taxing Legislation

Department of Finance

Our review of Tobacco Tax, as it relates to remissions granted during 1990-91, disclosed that only four remissions were granted totalling \$413,890.41 ranging in value from \$213.58 to \$313,975.47.

Three of the four remissions were approved by the Minister of Finance. The fourth remission for \$213.58 was approved by a senior official of the Department. We note that The Tobacco Tax Act, 1986, does not provide for the delegation of the Minister's functions as previously discussed under The Retail Sales Tax Act, 1978. Therefore, sufficient authority did not exist for this remission.

The Gasoline Tax Act, 1978

Section 61 of The Gasoline Tax Act, 1978, provides the authority to the Minister of Finance to grant a remission of penalty and interest imposed under sections 48 to 52 of this Act. Section 63 also provides for the delegation of functions to any officer of the Department as assigned by the Lieutenant-Governor in Council.

For the 1990-91 fiscal year, five remissions totalling \$3,253.89 were granted ranging in value from 2 cents to \$2,465.15.

Our review of remissions granted under the authority of The Gasoline Tax Act, 1978, disclosed that

- one remission was approved by the Minister of Finance; and
- the remaining four remissions were approved by senior officials within the Tax Administration Division of the Department. However, the Department could not supply documentation supporting the delegation of authority to these senior officials for the granting of remissions under this Act.

We note that the Department has advised us that, subsequent to 31 March 1991, they have taken action to provide for delegation of authority to approve remissions for both Tobacco and Gasoline Taxes.

Further, section 55(2)(c) of The Financial Administration Act, 1973, requires that the Public Accounts disclose "... *all compromises, remissions, refunds and amounts written off.*" However, these remissions have not been disclosed in prior years in Schedule J (Losses, Uncollectible Accounts and Other Amounts Written Off) of the Public Accounts. We note that the Tax Administration Division of

Comments on Departmental Audits

the Department of Finance has submitted these remissions to the Public Accounts Division for inclusion in Schedule J of the 1990-91 Public Accounts.

4.5 Write-off of Uncollectible Retail Sales Tax Accounts Department of Finance

Section 18 of The Financial Administration Act, 1973, reads as follows:

"Whenever any debt or fine due to the Crown becomes irrecoverable or only partially recoverable or any reduction in the value of Government stores is occasioned through loss or depreciation or from any other cause, the (Treasury) Board may direct the compromise or remission of such debt or fine as to it may seem equitable and direct that the deficit shall be written off."

Each year Treasury Board, under authority of section 18 of The Financial Administration Act, 1973, writes off amounts collected or owed by registered collectors and interest and penalties assessed under The Retail Sales Tax Act, 1978, but not remitted to the Consolidated Revenue Fund of the Province. A summary of amounts approved for write-off by Treasury Board for the past five years is as follows:

1990-91	\$590,344
1989-90	878,915
1988-89	933,297
1987-88	628,009
1986-87	288,555

A review of a sample of vendors files for accounts written off during 1990-91 revealed that the most common reason for the Department of Finance's inability to collect these amounts was insolvency of the companies which had collected but not remitted the Retail Sales Tax.

Valuation of Retail Sales Tax Receivable Department of Finance

4.6

Valuation of Retail Sales Tax Receivable Department of Finance

The Office of the Comptroller General of Finance requests annually that all departments submit the financial information necessary for the preparation of the Public Accounts.

The Tax Administration Division of the Department of Finance is responsible for providing the necessary financial information as it relates to the receivable for Retail Sales Tax at year end. Based on our review of the submission for this receivable at 31 March 1991, we have the following observations:

- The Tax Administration Division originally submitted a year end Retail Sales Tax receivable balance of \$19,055,673 for inclusion in the 1990-91 Public Accounts of the Province. The Retail Sales Tax receivable is disclosed in Schedule A - Accounts and Taxes Receivable in the Public Accounts of the Province.
- The year end receivable of \$19,055,673 represents actual recorded balances outstanding at year end plus an estimate for returns not filed with the Tax Administration Division of the Department of Finance by 31 March 1991.

Our audit of the balance reported for inclusion in the 1990-91 Public Accounts disclosed that \$3,834,000 was an estimate of the value for 1,431 outstanding returns at year end. Our review of accounts whose year end balance included estimates in excess of \$10,000 indicated that the estimate was overstated by approximately \$1,150,000.

In conjunction with the reporting of the Retail Sales Tax receivable for inclusion in the 1990-91 Public Accounts of the Province, the Tax Administration Division of the Department of Finance is also required to submit an "Allowance for Doubtful Accounts" which serves to reduce the Retail Sales Tax receivable to its estimated realizable value at year end.

The Tax Administration Division initially submitted an amount of \$4,346,000 representing the Allowance for Doubtful Accounts for the year ended 31 March 1991.

Comments on Departmental Audits

Our audit of the Allowance for Doubtful Accounts disclosed the following:

- We reviewed the year end receivable listing and identified 263 accounts with balances in excess of \$10,000 each representing 82% of the recorded balances outstanding at year end.
- Of the 263 accounts in excess of \$10,000 each, 158 accounts are considered by the Tax Administration Division as being terminated or no longer in operation. This amounted to \$7,450,000 of the Retail Sales Tax receivable balance reported at year end.
- Of the \$4,346,000 reported as representing the Allowance for Doubtful Accounts at year end, terminated accounts with balances in excess of \$10,000 each comprise \$3,622,000 of the reported balance.
- While the Department has detailed procedures dealing with the collection of outstanding balances, we could not find any documented procedures related to the determination of whether an account balance or a portion thereof should be considered doubtful at year end.

Because the Department does not have documented procedures for the determination of the year end Allowance for Doubtful Accounts, we requested the Tax Administration Division to review the 263 accounts with balances in excess of \$10,000 to determine whether the year end allowance should be increased. Based on the Tax Administration Division's review of these 263 accounts, the Allowance for Doubtful Accounts has been increased from \$4,346,000 to \$8,195,445.

Based on our audit of the Retail Sales Tax accounts receivable balance submitted for inclusion in the 1990-91 Public Accounts of the Province, we recommend that the Tax Administration Division

- review the procedures used to estimate the value of outstanding returns at year end; and
- develop and formally document procedures to be used in the determination of the Allowance for Doubtful Accounts at year end.

Failure to Comply with Section 9(2) of The Tobacco Tax Act, 1986 Department of Finance

4.7

Failure to Comply with Section 9(2) of The Tobacco Tax Act, 1986 Department of Finance

Section 9(2) of The Tobacco Tax Act, 1986 states as follows:

"(2) Notwithstanding paragraph (a) of subsection (1), cigarettes sold by retailers in and for consumption in the following areas of the province shall be subject to the tax on tobacco at the rate of two point seventy-five cents on every cigarette:

(a) the town of Labrador City;

(b) the town of Wabush; and

(c) the coastal area of southern Labrador extending from the border with the province of Quebec to and including the community of Red Bay."

Paragraph (a) of section 9(1) of this Act sets the rate of tax to be charged on each cigarette in all other areas of the Province. These rates and their effective dates are as follows:

1 April 1989	4.78 cents per cigarette
7 June 1989	5.28 cents per cigarette
8 March 1991	6.78 cents per cigarette

Essentially, section 9(2) of The Tobacco Tax Act, 1986, sets the tobacco tax on cigarettes in designated areas at 2.75 cents and this had not changed as at 31 March 1991.

Based on section 9(2) of The Tobacco Tax Act, 1986, the Tax Administration Division of the Department of Finance developed a form to be used, by retailers in the designated areas, in order to claim refunds of tobacco tax paid on cigarettes in excess of 2.75 cents per cigarette which had been paid to wholesalers. Retailers are required to complete the forms, attach certified copies of purchase invoices from wholesalers and submit these forms to the Tax Administration Division by the 15th of the month following the month in which cigarettes were purchased.

Comments on Departmental Audits

Our review of refunds charged against tobacco tax for the 1990-91 fiscal year indicated that retailers, in the designated areas, received refunds of tobacco tax from the Province based on the rate of tax on cigarettes (4.78 cents per cigarette) which was in effect at 1 April 1989. Hence, the increase in tobacco tax on cigarettes, which came into effect on 7 June 1989, had not been considered by the Tax Administration Division when calculating refunds due to retailers in designated areas.

We did not attempt to quantify the exact amount of underpayments to retailers who claimed refunds. However, the Department's records indicate refunds of tobacco tax for the 1989-90 and 1990-91 fiscal years totalled \$402,000 and \$504,000 respectively. From discussion with officials at the Tax Administration Division, the majority of these refunds would appear to relate to section 9(2) of The Tobacco Tax Act, 1986.

The Department of Finance has failed to comply with The Tobacco Tax Act, 1986, as amended, in calculating refunds of overpayments to retailers in designated areas per section 9(2) of the Act.

We have been informed that the Department of Finance has recommended that The Tobacco Tax Act, 1986, be amended retroactively to impose tax in the designated Labrador border zones at 2.03 cents per cigarette less than the general rate of tax.

4.8 Excess Sinking Fund Contributions Relating to Canada Pension Plan Debentures Department of Finance

Under authority of The Loan (Canada Pension Plan Investment Fund) Act, 1966 as amended, the Province was authorized to borrow funds which may be made available by the Government of Canada under the Canada Pension Plan Act. It has been the policy of the Province, as required by Minute of Council 152-'86, to contribute 2% (3% prior to 1 April 1986) of the principal amount of each Canada Pension Plan (CPP) Debenture each year into a sinking fund to ensure that sufficient funds are available to satisfy the maturity of a particular CPP Debenture.

Minute of Council 152-'86 also required that the effect of this change (from 3% to 2%) be monitored by the Board of Trustees of the Newfoundland Consolidated Sinking Funds on an annual basis to ensure its adequacy and effectiveness.

**Current Account Revenue
Government of Canada
Department of Finance**

Our 1990 audit of "Canada Pension Plan Investment Fund Debentures", which is presented in the Public Accounts on the Schedule of Debenture and Other Debt, disclosed that sinking fund payments had been made on Series 3A-057 to 3A-116 during 1989-90 even though the value of the sinking funds exceeded the debt to be retired. In a letter dated 12 February 1991, we recommended to the Deputy Minister of Finance that the current practice relating to excess sinking fund payments on Canada Pension Plan Debentures be reviewed in order to establish that the Province is making optimal use of its cash resources.

In his response dated 14 March 1991, the Deputy Minister of Finance stated " *... the Debt Management Division's mandate is to effectively manage all the Province's debt, not just the CPP debt, and in this regard the timing of projected CPP surpluses was utilized in some instances to ensure that adequate funds would be available to the Province to assist in the repayment of certain short term European Bond issues which were issued without sinking fund provisions. It was in this context that payments continued to be made regardless of the surplus status of certain CPP Sinking Funds. In the meantime, we are currently reviewing our policies relating to CPP contributions and surpluses in relation to existing legislation....* "

We agree that such a review is necessary. The Public Accounts for the year ended 31 March 1990 disclosed outstanding balances totalling \$84,110,000 relating to CPP Debentures due to mature over the period 1 April 1991 to 3 March 1995. However, although sinking fund balances for these debentures totalled \$107,174,000 (an excess of \$23,064,000), the Province still contributed approximately \$1,600,000 to these sinking funds during the year ended 31 March 1991.

The practice of making excess contributions to sinking funds should be reviewed to ensure the Province is making optimal use of its cash resources.

4.9

**Current Account Revenue
Government of Canada
Department of Finance**

Introduction

The Fiscal Policy Division of the Department of Finance is responsible for the revenue management policies of the Province, including the negotiations of Federal-Provincial fiscal arrangements, revenue policy and revenue forecasting.

Comments on Departmental Audits

The budget for current account revenue from federal sources for 1990-91 was \$1,208,500,000. In addition, the budget for Personal and Corporate income taxes which are collected by the Government of Canada on behalf of the Province under tax collection agreements was \$490,000,000.

Scope and Objective

We conducted a review of the cash receipts monitoring and control system in place at the Fiscal Policy Division as it relates to certain payments received from the Government of Canada. The objective of our review was to evaluate the system of control and determine if there were any significant control weaknesses.

Sources of Current Account Revenue

Our review was directed at the following sources of current account revenue for 1991:

Government of Canada

1. Tax Equalization	\$ 906,705,711
2. Established Programs Financing Grant	211,832,714
3. Utilities Company Tax	8,708,496
4. Term 29	8,000,000
5. Statutory Subsidies	<u>1,744,145</u>
	<u>\$1,136,991,066</u>

Taxation

1. Personal Income tax	\$454,675,734
2. Corporate Income tax	52,584,978

Current Account Revenue
Government of Canada
Department of Finance

3. Government of Canada Reciprocal Tax Agreement	<u>12,945,117</u>
	<u>\$520,205,829</u>

The Province has entered into tax collection agreements with the Government of Canada whereby the Government of Canada collects provincial income taxes, personal and corporate, on behalf of the Province and remits taxes collected to the Province. Additional comments on the audit of Provincial Income Taxes are contained in Part 4.3 of this Report.

Overview of Major Revenue Sources

Brief descriptions of Tax Equalization and Established Programs Financing Grant, the two major sources of current account revenue from the Government of Canada, are included below.

Tax Equalization

Tax Equalization payments are made by the Government of Canada to the Province in accordance with the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977. The objective of Tax Equalization payments is to make it possible for all provinces of Canada to provide reasonably comparable standards of public services at reasonably comparable levels of taxation. The Province has some impact on the level of funding received under tax equalization through ongoing discussions with the Government of Canada on policy and other broad issues.

Equalization payments are made to the Province twice monthly. The formula for the calculation of tax equalization takes into account the revenue sources and population of this Province and the other provinces of Canada and many other factors. The Fiscal Policy Division analyzes the changes in levels of funding and forecasts levels of revenue from Federal sources based on the most current information available from the Government of Canada.

Established Programs Financing Grant

Established Programs Financing Grants are also paid to the Province under the Federal-Provincial Fiscal Arrangements and

Comments on Departmental Audits

Federal Post-Secondary Education and Health Contributions Act, 1977. The Government of Canada provides financing for Post-Secondary Education, Insured Health Services and Extended Health Care Services. Financing is provided through a federal income tax reduction, enabling the Province to impose its own tax measures, as well as through an established program of monthly cash contributions to the Province. The total grant is presently frozen at current levels.

The purpose of the Established Programs Financing Grant is to contribute to the support of post-secondary education to maintain national education standards; to ensure that all residents of Canada have reasonable access to hospital care services; and to provide funding to assist in the development of nursing home care, residential home care and ambulatory health care.

Findings

A schedule of anticipated receipts from the Government of Canada is maintained on an ongoing basis based on the payment dates prescribed in legislation and the various agreements. The Fiscal Policy Division anticipates and monitors receipts. Reconciliations are performed as amounts are received and appropriate adjustments are made to allocate the receipts to proper accounts on a timely basis. The Fiscal Policy Division is informed of any changes in entitlements from the Government of Canada as new information becomes available and, therefore, can forecast revenue levels using the most current information available. Significant changes in entitlements as a result of new information is investigated by the Fiscal Policy Division. The investigation consists of further review of the information provided by the Government of Canada as it relates to the "formula" used to determine entitlement amounts.

Conclusion

Our tests of transactions and review of the system did not result in the detection of any significant weaknesses in the cash receipts monitoring and control system relating to these receipts from the Government of Canada.

Review of Financial Management Controls over Transfer Payments Department of Education

4.10

Review of Financial Management Controls over Transfer Payments Department of Education

Introduction

The Department of Education is responsible for approximately \$500 million of transfer payments to school boards each year.

School boards are funded by the Provincial Government and through local taxation and individual fund-raising. The Province provides, on average, over 91% of total operating revenues of school boards.

Scope and Objectives

Our audit of the Department of Education's financial management and reporting controls was performed in conjunction with our audits of two individual school boards and a survey of senior management of 21 school boards. The purpose of the audit at the Department was to follow-up on our initial review of transfer payments. The results of our initial review had been reported in our 1989 Report.

Conclusions

Our review and evaluation of the Department of Education's financial management and reporting controls disclosed several weaknesses in the control over transfer payments, including noncompliance with The Schools Act, inadequate reporting requirements and insufficient audit activity. As a result of our review, we have concluded that the Department does not have adequate procedures in place to ensure that money is spent for its intended purpose and in accordance with government objectives and policy.

Findings and Recommendations

1. Noncompliance with legislation

(a) Noncompliance with reporting requirements

Section 12(j) of The Schools Act states "*every School Board shall... prepare and submit to the Minister at the end of each school year a detailed statement of its accounts audited by a firm of certified or chartered accountants and in such form as may from time to time be prescribed by the Minister ...*". The School Board Financial Reporting Manual, published under this authority, requires an audit opinion on whether the financial statements present fairly the financial position of

Comments on Departmental Audits

the board in accordance with the reporting requirements established for school boards by the Department of Education, applied on a basis consistent with that of the preceding year.

Our review disclosed that 13 out of 32 school boards' audit reports for the school year ended 30 June 1990 failed to report on compliance with the Department of Education's reporting requirements.

(b) Report on sufficiency of bond coverage

Section 17(3) of The Schools Act states "*The auditors auditing the accounts of a School Board shall, during the course of each audit, inspect the bonds entered into with respect to such School Board under this section and report on the sufficiency to the Minister.*"

Our review disclosed that 23 out of 32 audit reports did not report on the sufficiency of bond coverage.

(c) Annual reports not submitted

Section 19(p) of The Schools Act requires that the school board superintendent "*make, on the forms prescribed, annual reports to the School Board and to the Department on the educational program in the School Board's district and furnish copies of such reports to the appropriate education committee...*".

Our review disclosed 13 out of 32 superintendents failed to submit an annual report. In addition, officials of the Department have informed us that there are no formal guidelines in effect as to the form, content and use of this report.

(d) Statutory deadlines not met

Section 38 of The Schools Act states "*If a School Board neglects to transmit to the Minister the statement of accounts referred to in paragraph (j) of Section 12 on or before the first day of September in any year, the School Board shall not receive further payment for any grants other than those provided for by Section 85 and 92 until it remedies default.*"

Our review disclosed that, for the year ended 30 June 1990, 30 out of 32 school boards' financial statements were stamped as being received subsequent to the statutory deadline of 1 September. The remaining

Review of Financial Management Controls over Transfer Payments Department of Education

two school boards' financial statements were not stamped as received. In addition, 18 of the 32 audit reports were dated subsequent to the deadline.

The preparation and timely review of the audited financial statements and the annual report are an important part of the accountability process over transfer payments. The formal reporting requirements set by the Department should provide reliable information, at an appropriate level of detail, to allow departmental staff to monitor and follow-up on school board reports.

We recommend that the Department take the appropriate steps to ensure compliance with the reporting requirements of The Schools Act. The Department should also continue to monitor its information requirements to ensure reports are relevant and that reasonable reporting consistency is being maintained by the school boards.

2. Management letters

Our review disclosed that 18 out of 32 school boards did not forward a management letter to the Department for the year ended 30 June 1990. However, correspondence on file indicates that 5 of the 18 school boards did not receive a management letter from their auditors.

We recommend that the Department obtain, on a timely basis, all management letters issued by the external auditors as a result of the audit process. This will help to ensure that the Department is made aware of any weaknesses in management and internal controls which exist within school boards and to establish and monitor a more effective accountability process.

3. School boards' budgets

The annual budget of the school boards detailing their anticipated operating and capital expenditure is not required to be reviewed and approved by the Department.

Proper financial planning, control and verification procedures should be applied to all transfer payments, including the use of budgetary control techniques. The budget is a financial management tool that could be used by the Department to establish the financial objectives of a school board and measure and monitor its performance.

Comments on Departmental Audits

We recommend that school boards be required to submit their annual budget to the Department of Education for review and approval. In addition, the Department should consider developing guidelines for the school boards to follow in the development and implementation of the budget.

4. Interim reports

The school boards are not required to submit interim financial reports to the Department. Interim financial reports would provide information on a timely basis and also be useful for monitoring costs and determining funding requirements.

We recommend that the Department require school boards to submit their interim financial reports, on a regular basis, for review.

5. Internal audit function

The Department of Education does not use the services of an internal audit function to review and appraise the financial management control and reporting system of school boards.

The use of an internal audit function is necessary to ensure financial accountability and control over transfer payments to school boards. Internal audits would be objective and provide independent reports to management on the effectiveness of the various systems at the school boards.

We recommend that the Department develop an internal audit function to monitor and control transfer payments to school boards.

6. Guidelines for the dissolving and combining of school boards

Our review disclosed that the Department has no formal guidelines in effect for the dissolving and combining of school boards. We note that school boards had used different methods of accounting for combinations resulting in a different treatment of board equity.

Guidelines are necessary to ensure all changes to the status of school boards are made and accounted for in a consistent manner.

Review of Financial Management Controls over Transfer Payments Department of Education

We recommend that the Department develop the necessary guidelines to ensure that all dissolutions and/or combinations are accounted for in a consistent and proper manner.

7. No legislative reporting requirement on transfer payments

Our review disclosed that The Schools Act does require the school boards to submit annual reports to the Department. However, there is no requirement for the Department to prepare an annual report for the Minister for presentation to the House of Assembly.

The Department is responsible for over a half billion dollars of transfer payments for which it should be held accountable to the Legislature.

We recommend that the Department submit an annual report on transfer payments to the Minister for presentation to the House of Assembly.

8. School boards operating in a deficit position

Our review disclosed that 16 of the 32 school boards operated in a deficit position at 30 June 1990. The combined deficits of these 16 boards totalled over \$9.9 million at 30 June 1990. Many of these school boards have been in a deficit position for a number of years.

We recommend that the Department scrutinize more closely those school boards having deficits and monitor them throughout the year.

9. No legislative requirement for audit of Education Councils

Our review disclosed that transfer payments for capital expenditures are made by the Department of Education to the various Education Councils. Section 17(9) of The Department of Education Act requires the Education Council to submit a financial statement to the Minister by 30 September in each year. There is no requirement that the financial statement be audited.

Although Education Councils do have audits performed on a regular basis, we recommend the Department of Education take steps to formalize the audit function, including audit scope and reporting requirements, within the legislation establishing Education Councils.

Comments on Departmental Audits

10. Student enrolment not subject to audit

Our review disclosed that the enrolment figures provided by the various schools were not subject to audit by the Department.

Student enrolment is the basis for almost all transfer payments paid by the Department to the school boards.

We recommend the Department initiate an audit process over the system used to compute student enrolment.

4.11 Review of The Schools Act (Teachers' Staffing) Regulations, 1987 Department of Education

Introduction

In Part 4.14 of our 1988 Report, we reported that the Department of Education had failed to adhere to The Schools Act (Teachers' Salaries) Regulations, 1979, The Schools Act (Teachers' Salaries) Regulations, 1979, have subsequently been repealed and replaced by The Schools Act (Teachers' Staffing) Regulations, 1987.

During the 1990-91 fiscal year, the Department of Education recorded an expenditure of \$403,443,349, representing teachers' salaries and benefits. The authority for this expenditure is provided by The Schools Act (Teachers' Staffing) Regulations, 1987. The Department allocates staffing units to each of the Province's school boards based upon criteria contained in these Regulations. We reviewed these Regulations for the 1990-91 fiscal year.

Scope

Our review pertaining to the allocation of staffing units to the various school boards included

- a review of applicable legislation, including The Schools Act (Teachers' Staffing) Regulations, 1987;
- a review of applicable records and documentation maintained by the Department of Education; and
- discussions with Departmental officials.

Review of The Schools Act (Teachers' Staffing) Regulations, 1987 Department of Education

Objectives

Our objectives were

- to ascertain whether issues raised in previous Reports and management letters have been addressed satisfactorily by officials of the Department of Education;
- to ascertain whether 1990-91 staffing units have been allocated in accordance with The Schools Act (Teachers' Staffing) Regulations, 1987; and
- to report any noncompliance with the Regulations and the effect on the Province's 1990-91 Public Accounts to the Department of Education.

Findings

Our review disclosed the following:

- School boards were allocated thirty-two staffing units in excess of their entitlement. A "*staffing unit*" means a staff position to which a school board is entitled under The Schools Act (Teachers' Staffing) Regulations, 1987. Had the Regulations been adhered to, the Department of Education would have
 - (i) spent approximately \$858,461 less than reported under the caption "Teaching Services - Grants and Subsidies" on the Departmental Statement of Expenditure and Related Revenue in the 1990-91 Public Accounts; and
 - (ii) accrued approximately \$164,687 less for "Teachers' Salaries" as reported on Schedule F-Current and Long-Term Liabilities in the 1990-91 Public Accounts. The caption "Teachers' Salaries" refers to that portion of teachers' salaries withheld during September 1990 to March 1991 to be paid to teachers during June, July and August 1991.

The major reason for the allocation of excess units was the Department of Education used a "*phased gain*" percentage of 2.5% vs. .85% as referred to in sections 14(1), 14(2) and 14(6) of the Regulations. Phased gain refers to a 5 year initiative by the Department of Education to retain and redeploy approximately

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fifty teaching positions that would ordinarily be redundant as a result of declining enrolments.

- The allocation of staffing units to consolidated school boards is provided for in section 16 of the Regulations. The Department's position on "central office staff" for consolidated school boards is in contravention of sections 11 and 12 of the Regulations, which specifically relate to the number of superintendents, assistant superintendents and program coordinators to be allocated to the various school boards.

The Department's position on central office staff for consolidated school boards as per sections 11 and 12 of the Regulations is

"(i) For a period of three years following consolidation of school boards there will be no reduction in the number of staffing positions, allocated under the Teachers' Staffing Regulations, 1988(1987), that would be allocated if the school districts had remained separate.

(ii) The number of positions assigned to central office staff, by the respective school boards prior to consolidation may be maintained by the successor (consolidated) board for the three year transition period following consolidation, i.e., these positions will be protected.

(iii) Vacancies occurring in these "protected positions" during the three year transition period, which exceed the consolidated board's formula entitlement, may be filled for the remainder of the transition period on a term contract basis."

- The Department of Education determines the staff allocation for each school board. However, excluding sections 10, 11 and 12 allocations, the school boards use their own discretion on the staffing position. This is in contravention of the Regulations. For example, section 6 of the Regulations is specific in the number of school principals for each school within a board. However, the boards allocate one principal for each school. This allocation exceeds the number of principal positions within the board per the Regulations.

Review of The Schools Act (Teachers' Staffing) Regulations, 1987 Department of Education

- Special Education staffing units in excess of entitlement were allocated under section 10 of the Regulations for the 1990-91 fiscal year. This allocation of excess units resulted from a lack of verification work being performed by the Special Education Division. For the 1991-92 fiscal year, the Special Education Division has instituted a new documentation process whereby the school boards submit detailed information to the Department of Education to ensure all section 10 staffing units can be verified. Also, for the 1991-92 fiscal year, the Division is attempting to agree information to the previous year's Annual General Returns. It appears this new documentation process will correct the weaknesses within the Special Education Division pertaining to staffing unit allocations.
- Staffing units in excess of entitlement were sometimes allocated for the services provided for in section 19 of the Regulations. Section 19 of the Regulations provides for the allocation of one staffing unit to provide any of the following services:
 - (a) itinerant services for hearing impaired pupils;
 - (b) itinerant services for visually impaired pupils;
 - (c) speech language pathology services; and
 - (d) educational psychology services.
- Annual General Returns, prepared by the school boards, contain information pertaining to student enrolment which are used by the Department of Education to determine the staffing unit allocations. The Department does not have an adequate system in place to verify the accuracy of this information.
- The Teachers' Payroll System contained the following weaknesses pertaining to these Regulations.
 - (i) The "Board Allocation" sheet identifies the staff positions allocated and the staff positions used. It was observed, in two cases, that the units used exceeded the units allocated for both staff positions and total positions. The units used should never exceed units allocated. This problem was brought to the attention of departmental

Comments on Departmental Audits

officials for corrective action. Subsequently, it was discovered that these were "keying errors" and resulted in no overpayments.

(ii) The "Board Allocation" sheet could only be viewed on a current basis. We could not determine if the problem in (i) above occurred for other payperiod dates. When updates were made, the previous "Board Allocation" sheet was not maintained by payperiod.

Recommendations

As a result of our review, we make the following recommendations:

- ☐ Applicable legislation and regulations should be adhered to.
- ☐ Payroll system weaknesses should be corrected to provide a proper audit trail.
- ☐ Proper verification procedures should be implemented to ensure staffing units are allocated properly.

Conclusion

We feel that the Department should comply with existing legislation and regulations or request that these be amended to reflect current practice should the Legislature consider such amendments appropriate.

We have been informed by officials of the Department of Education that the Department is currently proposing revisions to The Schools Act (Teachers' Staffing) Regulations, 1987, to reflect current practice.

4.12 Tendering for the Road Construction Program Department of Works, Services and Transportation

Introduction

Funding under this program provides for the construction and improvement of the Provincial highway system. The development of new roads and improvements to existing ones are carried out under major cost-sharing arrangements with the Federal Government and through totally Provincially funded projects.

Tendering for the Road Construction Program

Department of Works, Services and Transportation

During 1990-91, expenditures for the several activities comprising this program totalled \$98.6 million as follows:

Improvement and Construction	\$18.5 million
Road and Bridge Rehabilitation	6.9 million
Bridges and Causeways	2.6 million
Highways - Transport Canada	56.0 million
Highways - Transportation Initiative	8.7 million
Bridges - Labrador Agreement	2.9 million
Land Acquisition	<u>3.0 million</u>
	<u>\$98.6 million</u>

Overview

Once a project has been approved and the Department's Design Division has established its own estimate of project cost, the final tendering documents are prepared and the job is advertised by public advertisement through the Tendering and Contracts Division. The Department's "*Tender Book*" document containing the project specifications, instructions to bidders and the tender form are distributed to prospective bidders. After the tenders are opened in public on the closing date, tender submissions are reviewed by a tender board and a recommendation is made, generally, that the lowest bid be accepted. In accordance with the time limitations set out in the Department's tender form, the successful bidder is notified of the award and a contract document is concluded.

Scope and Objectives

For the year ended 31 March 1991, we conducted a review and evaluation of the Department's methods and procedures for inviting and awarding tenders for certain projects comprising the Road Construction Program. Our objective was to select high value

Comments on Departmental Audits

contracts primarily for the purposes of auditing the Department's Federal-Provincial Cost Sharing Agreements for the 1990-91 year. Therefore, the results of our review of these contracts are not intended to reflect on the administration of other road construction contracts undertaken by the Department during 1990-91.

In performing this review we attempted to determine whether procedures in effect were adequate to ensure that all tenders were called and awarded and contracts concluded in accordance with the provisions of The Public Tender Act, 1984, The Public Tender Regulations, as well as the requirements of the Department's *"Tender Book"* documents.

For this review we selected 17 projects with a total tender value of \$40.9 million.

Findings

We determined that all projects were tendered through public advertisement as required by The Public Tender Act, 1984. In all cases tenders were awarded to the lowest bidder.

We noted that of the 17 selected projects, 13 had minimum bids that varied from the Department's own estimate of cost by at least 10% but there was no documented assessment and evaluation.

As well, 8 of the 17 were not awarded to the successful bidder in writing within the 30 day period set out in the Department's *"Tender Form"* document. This deficiency would legally permit the successful bidder to withdraw his bid.

In 7 of these cases the contractors concluded contracts with the Department based on those bids.

In the other case the Department's tender award letter was issued 4 days beyond the 30 day limit and the contractor notified the Department that the Company was withdrawing its tender.

The closing date for tenders for that specific project was 6 June 1990. Four bids were received at the public tender opening as follows:

Tendering for the Road Construction Program

Department of Works, Services and Transportation

Contractor A	\$7.0 million
Contractor B	8.6 million
Contractor C	9.0 million
Contractor D	9.5 million

These bids compared to a departmental estimate for the project of \$7.2 million.

As a result of the lowest bidder's refusal to accept the contract, the Department decided to cancel the original tender call and retender the project with minor specification changes.

The closing date for the second tender call was 7 August 1990. Three bids were received at the public tender opening as follows:

Contractor A	\$8.3 million
Contractor B	8.5 million
Contractor D	8.6 million

The Department's estimate of project cost remained at \$7.2 million.

The award letter required by section 4 of the "*Tender Form*" document was issued within the 30 day period on 8 August 1990 and the contract was accepted by the lowest bidder in a letter dated 16 August 1990.

The Department accepted a bid from the same contractor on the second tender call that exceeded the original bid by \$1.3 million and the Department's own estimate of the cost of the project by \$1.1 million.

In addition, even though this project is subject to cost sharing under the Federal-Provincial Economic and Regional Development Agreement for Highways, Transport Canada would not approve cost sharing of the additional cost of \$1.3 million.

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Recommendations

Based on our review of the procedures in effect for tendering and awarding projects under the Road Construction Program, we make the following recommendations:

- All policy, procedures and guidelines related to the process of inviting, assessing and awarding tenders for this program should be fully documented, including appropriate criteria for dealing with matters such as retendering projects.
- The monitoring of requirements related to the acceptance of tender bids and concluding contract documents should be formalized. During this period there was no administrative reporting process to ensure that all the legal requirements of the tendering and award process were being fully monitored. The details of the monitoring and reporting system should be included in systems documentation.
- All review procedures, both administrative and technical, related to the assessment of tender bids should be fully documented and authorized. This should include an assessment of tender variances with the Department's estimate of cost that are plus or minus 10%.
- The Department's *"Tender Book"* document should be reviewed in conjunction with the Department of Justice to ensure that all provisions, particularly those relating to time limitations, remain valid and reasonable and adequately meet the Department's contractual requirements for all projects.

Conclusion

We have been informed that a review committee formed by the Department has completed the preliminary phase of its work and, upon approval of the committee's recommendations, appropriate policy and procedural changes will be implemented in the area of tendering and contracting.

In our view, the system for monitoring tender awards for projects under the Road Construction Program was inadequate to ensure that all projects were awarded within the time period required by the Department's tendering documents.

Review of Financial Management Controls over Transfer Payments Department of Municipal and Provincial Affairs

4.13

Review of Financial Management Controls over Transfer Payments Department of Municipal and Provincial Affairs

Introduction

The Department of Municipal and Provincial Affairs provides financial assistance and support to municipalities through transfer payments in the form of grants and subsidies. The 1991-92 Estimates of the Department of Municipal and Provincial Affairs showed that \$105,188,500 was provided under main object 10 - Grants and Subsidies. These transfer payments accounted for over 70% of the Department's budget.

Scope and Objectives

Our review of the Department of Municipal and Provincial Affairs' system of financial management controls over funding to municipalities included an examination of departmental records, audited financial statements of municipalities and applicable legislation. The purpose of our review was to obtain a general assessment of the budgeting, monitoring and reporting system in effect to ensure accountability over transfer payments made by the Department to municipalities.

Conclusions

Our review and evaluation of the Department of Municipal and Provincial Affairs' financial management controls disclosed several weaknesses in the system of control over transfer payments including noncompliance with The Municipalities Act, inadequate reporting requirements and inadequate monitoring activity. As a result, the Department needs to strengthen its control over transfer payments to ensure that money is spent for its intended purposes and in accordance with government objectives and policy.

Findings and Recommendations

1. Noncompliance with legislation

(a) Audit reports not submitted by statutory deadline

Section 86 of The Municipalities Act states "*the auditor shall complete and submit his report on his audit within five months of the end of the financial year...*". Section 87 of the Act states "*The council shall send a copy of the audit to the Minister within 30 days of its receipt.*"

Comments on Departmental Audits

Our review disclosed that for the year ended 31 December 1990, 50% of the municipalities examined had their audit reports dated subsequent to the statutory deadline of 31 May.

(b) Budgets not submitted by statutory deadline

Section 73(1) of The Municipalities Act states *"Every council shall ... not later than the first day of December in each succeeding year, prepare and adopt a budget..."*. Section 73(2) states *"the budget shall be in such form as the Minister may prescribe and a copy shall be sent to him on or before the thirty-first day of December in each year..."*.

Our review disclosed that municipal budgets were stamped as being received subsequent to the statutory deadline of 31 December.

(c) Expenditure exceeding budget without proper approval

Section 77 of The Municipalities Act states *"A council shall not without the approval of the Minister incur, enter into, contract, or become liable for an expenditure or indebtedness beyond or in excess of the estimated amount of expenditure set out in the adopted budget."*

Our review disclosed that over 50% of the municipalities examined exceeded their budgeted expenditures without obtaining the prior approval of the Minister.

(d) Capital expenditure forecast not prepared

Section 91 of The Municipalities Act states *"Every council shall annually on or before the end of each year submit to the Municipalities Capital Projects Board... a five year forecast of their anticipated capital expenditure requirements."*

Our review disclosed that several of the municipalities examined failed to comply with this statutory requirement.

We recommend that the Department implement procedures to ensure compliance with the various budgeting and reporting requirements of The Municipalities Act. Compliance with these requirements will assist in monitoring the financial operations of municipalities on a timely basis.

Audit of the Cultural Affairs Division and the Arts and Culture Centres Department of Municipal and Provincial Affairs

2. Revised budget not reflected in the financial statements

Section 85 of The Municipalities Act states " *The auditor shall examine and report on the annual financial statement of the council and its books of account and in his report shall particularly direct his attention to... any expenditure in excess of the budget of the council...* ".

Our review disclosed several instances where a council's original budget was included in the financial statements although a revised budget had been approved and adopted. In some cases councils who had exceeded their revised budgets were shown to be under budget on their financial statements while for other councils the opposite was true.

We recommend the Department implement procedures to ensure that the proper budget is included in the council's financial statements in order to make comparisons to actual results meaningful.

3. Management letters not submitted to department

Our review disclosed that management letters issued by external auditors were not required to be submitted to the Department.

To ensure that the Department is made aware of any weaknesses in management and internal controls which exist within Municipalities and to establish and monitor a more effective accountability process, we recommend that the Department obtain all management letters issued by the external auditors as a result of the audit process.

4.14

Audit of the Cultural Affairs Division and the Arts and Culture Centres Department of Municipal and Provincial Affairs

Introduction

The Cultural Affairs Division of the Department of Municipal and Provincial Affairs is responsible for the administration of the Arts and Culture Centres. These Centres are:

St. John's Arts and Culture Centre

Gander Arts and Culture Centre

Corner Brook Arts and Culture Centre

Comments on Departmental Audits

Stephenville Arts and Culture Centre

Labrador City Arts and Culture Centre

During the period 1 April 1987 to 31 December 1990, we performed a review and evaluation of the records of the Arts and Culture Centres (excluding Labrador City) and of the Cultural Affairs Division pertaining to these Centres.

Scope

The scope of our review and evaluation consisted of

- ☐ an examination of applicable legislation;
- ☐ an examination of applicable records, reports and documentation;
- ☐ an analysis of revenue and expenditure accounts; and
- ☐ discussions with officials of the Centres and the Cultural Affairs Division.

Objectives

The objectives of our review and evaluation were

- ☐ to ascertain compliance with legislation; and
- ☐ to review and evaluate the system of financial management and control.

Findings

Our review and evaluation disclosed the following areas of concern. (Not all areas of concern identified relate to all Centres.)

- ☐ Legislation and operating guidelines and procedures were not always adhered to.
- ☐ Employees in a position of trust were not bonded.
- ☐ Cash reconciliation forms were not verified and signed by an appropriate official.

**Audit of the Cultural Affairs Division
and the Arts and Culture Centres
Department of Municipal and Provincial Affairs**

- ❑ Operating practices were not all documented.
- ❑ Rental contracts were not prenumbered and not always completed for room rentals.
- ❑ The schedule of rental rates was not always adhered to.
- ❑ Performance agreements were not prenumbered and not always recorded on a timely basis.
- ❑ Performance agreements were not always forwarded to the applicable Centre for file reference.
- ❑ Accounts receivable trial balance was not prepared on a monthly basis.
- ❑ The segregation of duties in the accounts receivable function was inadequate.
- ❑ Computer system changes were not formally documented.
- ❑ Computer system controls were inadequate to provide security against accidental destruction of records and to ensure continuous operation in the event of system failure.
- ❑ Swimming pool revenue was difficult to verify since the system does not distinguish between the categories of patrons.
- ❑ Swimming pool passes were not prenumbered and adequately safeguarded.

In addition, the following matters came to our attention.

1. Expenditures of the Cultural Affairs Division not in compliance with The Public Tender Act, 1984

The Cultural Affairs Division of the former Department of Culture, Recreation and Youth was delegated purchasing authority for the procurement of goods and services for the operation of the Arts and Culture Centres. This authority, GPA 025-'83, dated 22 August 1983 from the Government Purchasing Agency, provided for the issuance of special purchase orders (i.e. Production Purchase Orders). The limit on the special purchase orders is \$1,000 on a noncompetitive basis and

Comments on Departmental Audits

\$5,000 on a competitive basis. This \$5,000 could be exceeded if the need is one of pressing urgency or there is only one available source of supply.

The Cultural Affairs Division, since it is a division of a government department, must comply with The Public Tender Act, 1984, and The Public Tender Regulations in the procurement of goods and services.

Our review disclosed that

- No documentation existed to indicate quotes were obtained from at least three suppliers for purchases under \$5,000.
- Public Tenders were not invited for purchases over \$5,000.
- The Minister of Works, Services and Transportation was not informed when a tender was not required to be invited for amounts over \$5,000.

2. Complimentary tickets issued to certain patrons of the Arts and Culture Centre, St. John's

In our 1980-81 and 1981-82 Reports we reported that the Arts and Culture Centre, St. John's followed a practice of issuing tickets free of charge to certain patrons of the Centre. We also stated that there was no written policy governing the issuance of complimentary tickets by the Arts and Culture Centre, St. John's and neither was there specific written authority authorizing the Director of Cultural Affairs or the personnel at the Centre to issue tickets to certain patrons free of charge.

We recommended that

"...the issuing of complimentary tickets at the St. John's Arts and Culture Centre, or at other Arts and Culture Centres throughout the Province, should (a) be authorized by the proper authority and (b) be subject to a written policy which clearly establishes the terms and conditions under which such tickets may be issued and who is eligible to receive them."

Subsequent to our 1981-82 Report, the former Department of Culture, Recreation and Youth developed a "complimentary ticket voucher" and guidelines for the issuance of complimentary tickets.

Review of Financial Management Controls over Transfer Payments Department of Health

Our review of the St. John's Arts and Culture Centre disclosed that

- the use of these complimentary ticket vouchers was discontinued in 1988; however, complimentary tickets continue to be issued; and
- since that time, the guidelines for the issuance of complimentary tickets have not been strictly adhered to.

Recommendations

As a result of our review and evaluation, we make the following recommendations:

- All legislation and operating guidelines and procedures should be strictly adhered to.
- The system of financial management and control should be strengthened.
- Computer system controls should be strengthened.

Conclusion

Government's expenditure for the Arts and Culture Centres is significant. The implementation of the above recommendations should improve the system of control over the Arts and Culture Centres and should ensure the completeness, accuracy and timeliness of the information produced by the system.

We have been informed by the Department of Municipal and Provincial Affairs that corrective action will be taken on the implementation of our recommendations.

4.15

Review of Financial Management Controls over Transfer Payments Department of Health

Introduction

The Department of Health is responsible for the overall direction and funding of the Province's health care system. The Department funds hospitals, medical clinics, nursing stations, community health centres and other care giving agencies through boards of management. Funding to these organizations is provided by government through transfer payments.

Comments on Departmental Audits

The 1991-92 Estimates of the Department of Health showed that approximately \$580,405,300 was provided under main object 10 - Grants and Subsidies. In addition, the Estimates also showed \$8.2 million under main object 07 - Property, Furnishings and Equipment. This funding, in the form of transfer payments, accounted for approximately 72% of the Department's budget.

Scope and Objectives

Our audit of the Department of Health's financial management and reporting controls over transfer payments concentrated on transfer payments to the hospitals only and did not deal with transfer payments to other care giving agencies. Our audit was performed in conjunction with our audits of two individual hospitals and a survey of senior management at 10 other hospitals. The purpose of the audit at the Department was to follow-up on our 1989 and 1990 reviews of transfer payments .

Conclusions

Our review and evaluation of the Department of Health's financial management and reporting controls disclosed several weaknesses in the control over transfer payments, including noncompliance with The Hospitals Act, various reports and audited statements not being submitted on a timely basis, insufficient audit activity and noncompliance with established policies and procedures. As a result, the Department needs to strengthen its control over transfer payments so that it can fully discharge its responsibility to the Legislature by being accountable for all of its expenditures.

Findings and Recommendations

1. Noncompliance with legislation

Section 19(1) and (2) of The Hospitals Act, 1971, states, "*The chairman or other officer presiding over a Hospital Board... in each financial year and not less than six months before the end of that year, shall make a report to the Minister showing the work done during the financial year immediately preceding that in which the report is made...there shall be included an account, made up to the end of the financial year covered by the report, setting out the income and expenditure of the Hospital Board during that year and a statement of the assets and liabilities of the Hospital Board at the end of that year.*"

Review of Financial Management Controls over Transfer Payments Department of Health

Our review disclosed that 25 of the 33 hospitals failed to submit an annual report for 1989-90 to the Minister of Health. Of the 8 reports submitted, 1 report was submitted by the statutory deadline of 30 September, 1 report was dated subsequent to the deadline and 6 reports were not stamped as being received. As a result, it could not be determined whether these were submitted by the established deadline.

Transfer payment recipients are expected to account for their management of the public funds entrusted to them. Transfer payments must go through an accountability process that includes timely reporting to the Department of Health on the achievement of objectives and results obtained by the hospital boards.

We recommend that the Department take the appropriate steps to ensure compliance with The Hospitals Act, 1971. In order to ensure an effective accountability process over transfer payments, the Department must ensure that formal reporting requirements are timely and relevant and are met consistently by all the hospitals.

2. Annual Return of Health Care Facilities

The Department of Health requires each hospital to submit to the Institutional Financial Services Division, an Annual Return of Health Care Facilities by 30 June of each year. This annual return is comprised of two parts. Part I contains extensive statistical data, such as patient days and bed totals, while Part II contains financial information which is audited by external auditors.

Our review disclosed that 30 of the 33 hospitals submitted Part I and 29 of the 33 hospitals submitted Part II of the return to the Department. Three of the hospitals submitted returns that were received by the deadline. Twenty-six of the hospitals' annual returns were stamped as being received subsequent to the deadline. The remaining annual return was not stamped as received.

We recommend that the Department take the appropriate steps to ensure that all annual returns are submitted by the established deadline.

We note that the Department has subsequently changed the reporting deadline for the filing of annual returns to 30 September.

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3. Monthly reports

The hospitals are required to submit reports to the Department of Health by the twentieth day of each month, following the month for which the report is being submitted. These monthly reports contain both financial and statistical information.

At the Department, the "*General Ledger Input Document Control Register*" records when the monthly reports are received. Our review of this register for the fiscal years 1989-90 and 1990-91 revealed that hospitals, in general, are not submitting their monthly reports by the established deadline. In addition, our review tested reporting in the nonfinancial reporting area. Three work volume statistics were tested for the month of July and our review revealed that all hospitals are not consistently reporting these various statistics. One hospital, in particular, does not report to the Department any nonfinancial information.

At a minimum, proper financial planning, control and verification procedures should be applied to all transfer payments. There should be appropriate budgetary control techniques to ensure that the transfer payments are reviewed and monitored. There should be a clear understanding of what information is required from the hospitals to be reported to the Department. Details on when to submit information, what time period it should cover, and what format it should be presented in should be clearly defined.

We recommend that the Department take appropriate action to ensure hospitals submit their monthly reports, with all the required information, by the established submission date.

4. Audited financial statements

The hospital boards are required to submit to the Department of Health a copy of their audited financial statements by 30 June of each fiscal year. These financial statements are to be submitted in conjunction with the Annual Return of Health Care Facilities.

Our review disclosed that 24 of the 33 hospitals had not submitted a copy of the audited financial statements for the fiscal year 1989-90 to the Department of Health by 30 June 1991.

Review of Financial Management Controls over Transfer Payments Department of Health

The accountability process for transfer payments includes timely reporting on financial information. The external audited financial statements provide assurance on the integrity of the data received.

We recommend that the Department require the hospital boards to submit their audited financial statements by the established deadline.

We note that the Department has subsequently changed the reporting deadline for the filing of annual returns to 30 September.

5. Management letters

Our review disclosed that none of the hospital boards have forwarded management letters to the Department with the hospital board's audited financial statements.

While at present there is no requirement to provide management letters to the Department, we recommend that the Department obtain all management letters issued by the external auditors as a result of the audit process. This will assist the Department in monitoring weaknesses in management and internal controls which may exist within the hospitals. This will provide the Department with a more effective accountability process over transfer payments.

6. Hospitals operating in a deficit position

We reviewed 22 of the 1989-90 financial statements that were submitted to the Department by the hospitals. Of these 22 hospitals, 16 were operating in a deficit position as of 31 March 1990. While we note the Department of Health's policy is not to fund hospital deficits, we feel these deficits are still a matter of concern to the Department.

We recommend that the Department pay closer attention to hospitals operating with significant deficits with a view to determining causes and recommending appropriate action.

7. Final settlement process

The final settlement process is a detailed calculation of the under or overpayment to a hospital by the Department of Health. It is the difference between the payments made to a hospital and the lesser of net shareable budgeted costs and actual shareable costs (the latter indicating that the Department will not fund costs in

Comments on Departmental Audits

excess of the approved budgeted costs). Included in the final settlement process is the calculation of the savings incentive program payment.

Our review of the final settlement process revealed that final settlements to the hospitals are not being completed on a timely basis. We note that there has been significant improvement made by the Department in completing the final settlements to the hospitals since we performed the 1989 audit. Of the 33 hospitals, the following indicates the last year that final settlements were completed and sent to the hospitals.

<u>Number of Hospitals</u>	<u>Fiscal Year</u>
10	1982-83
2	1985-86
8	1987-88
6	1988-89
7	No final settlements

We note that the Department has indicated that the final settlement work papers have been prepared for 1989-90, but have not been approved and sent out to the hospitals.

We recommend that the Department bring the final settlement process up to date in order to review the budgeting requirements and to determine the current status of Government's obligations to or from the hospitals.

8. Capital equipment

The proposed policy manual for the Institutional Financial Services Division states, *"The majority of the funds required by hospitals to purchase needed equipment is provided by Government. In addition, private Board funds and public sector donations are used to supplement the money provided by Government. The Department of Health takes a direct interest in the purchase of equipment. Reasons for this include:*

Review of Financial Management Controls over Transfer Payments Department of Health

- (i) ensure a high standard of service is maintained*
- (ii) ensure the workload is sufficient to warrant the cost.*
- (iii) ensure the workload is sufficient for personnel to maintain their expertise in their field.*
- (iv) ensure adequate backup services and equipment are available.*
- (v) ensure awareness of additional funding for additional staff and other expenses that may be incurred as a result of the purchase.*
- (vi) ensure adequate funds are available to cover the request."*

(a) Purchase Procedure Forms

The Department requires Purchase Procedure Forms (PPFs) to be completed for prior approval of items or groups of items greater than \$10,000. Once the equipment is purchased, a hospital submits a Shareable Equipment Reimbursement Claim to the Department to get reimbursed out of the hospital's capital equipment budget. Our review revealed that there were numerous instances of equipment being purchased by the hospitals without receiving the prior approval of the Department of Health by submitting PPFs.

This practice could lead to hospitals experiencing cash-flow difficulties and incurring unnecessary interest charges. Often, when the consultants approve the purchase, they would state, "*approved if funds are available*". Two instances were noted where claims had been submitted and there was insufficient funds remaining in the budget to cover the cost of the purchases. In one of these instances, the hospital did not get reimbursed for a claim for \$528,800 for the month of December until the following July.

We recommend that the Department ensure that the hospitals comply with the Department's policy of obtaining their approval prior to purchasing equipment. Without the hospitals' compliance with the Department's policy, the Department cannot meet its objectives noted above.

(b) Shareable Equipment Reimbursement Claims

Our examination of the Shareable Equipment Reimbursement Claims disclosed one instance where the hospital did not submit a copy of an invoice to support a claim for computer equipment costing \$200,000.

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We recommend that the Department only reimburse the hospitals for their capital equipment purchases if their Shareable Equipment Reimbursement Claims are adequately supported by invoices.

(c) Hospitals overspending on capital equipment

Except for the use of the internal audit function, there are no controls at the departmental level to ensure all purchases over \$10,000 in value are submitted to the Department for approval and subsequent reimbursement out of the hospitals' capital equipment budget, i.e., no controls that will ensure that a hospital will not overspend on capital equipment. It is the Department's position that this is the responsibility of the hospital. Our review of a report prepared by their Internal Audit Division disclosed that one of the factors contributing to a hospital's cash-flow problem was that the facility had overspent by \$300,000 on capital equipment over a six year period.

We recommend that the Department review those hospitals overspending on their capital equipment in order to monitor potential financial problems that may develop from such overspending.

9. Internal audit function

The Department does utilize the services of an internal audit function to review and appraise the financial management control and reporting system of the hospitals. Our review revealed that since 31 March 1988, its Internal Audit Division has performed four audits within the hospitals. Three of these audits were completed to ensure that the funds received were being utilized in accordance with the approved budgeted programs and to ensure that Government's regulations and the Department's directives were being adhered to. The fourth audit was performed to determine the causes of the cash-flow problems experienced by one hospital.

Our review also revealed that the audit programs and internal control questionnaires used by the Internal Audit Division in the performance of their audits need to be updated. At present, the audit programs and internal control questionnaires do not address controls over the computerized management systems which exist in most hospitals.

Our review revealed that the internal audit reports, generally, are not being reported to the hospitals on a timely basis. In particular, the audit of the Dr. G.B. Cross Memorial Hospital for the year ended

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31 March 1988 was completed in September/October 1988. However, this internal audit review from the Department of Health was not submitted to the hospital until 11 June 1990.

The use of an internal audit function is necessary to ensure financial accountability and control over transfer payments to the hospitals. Internal audits are objective and provide independent reports to management on the effectiveness of the various systems of the hospitals.

We recommend that

- Audit activity in the area of compliance with Government policies, procedures and directives be strengthened so that each hospital is audited on a cyclical basis at least every three years. The Department should significantly increase the services of the internal audit function to monitor and control transfer payments to the hospitals. Also, this Internal Audit Division can perform special reviews for management and provide reports on how to ensure accountability and control over transfer payments.
- Audit programs and internal control questionnaires in use should be periodically reviewed and revised to ensure that current audit methodology and procedures, including auditing in a computerized environment, are being employed.
- Any reports or reviews produced by the Internal Audit Division, as a result of audits performed, should be reviewed with appropriate officials at the hospital concerned on a timely basis.

We note that the Department has taken initiatives to increase the level and intensity of internal audit over hospitals. The Department is also developing a supplementary report for hospital boards to file with the Minister of Health as an addendum to the audited financial statements.



CHAPTER

5

COMMENTS ON CROWN CORPORATIONS AND OTHER ENTITIES



Chapter

5

Comments on Crown Corporations and Other Entities

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Comments on Crown Corporations and Other Entities

5.1 Introduction

This Chapter contains comments which result from attest and compliance audits of Crown corporations, boards and authorities of the Province (Crown agencies) and other entities which receive transfer payments from the Province. During the current year, we performed extensive reviews of the systems of control over transfer payments made by the Province to various entities. Our comments and recommendations resulting from these audits, which are applicable to specific entities, are presented in this Chapter.

Additional information relating to prior years' Report comments on the various Crown corporations, boards and authorities is presented in Chapter 6.

Attest and compliance audits of Crown Corporations and Other Entities performed by this Office are listed in Appendix II. Those audited by private sector auditors are listed in Appendix III.

5.2 Accountability of Crown Agencies

Introduction

Legislative control over Crown agencies stems from various authorities, including legislation, regulations, orders-in-council, cabinet directives, by-laws and other instruments through which powers are established and delegated. These "authorities" set out directions, conditions and limitations that affect the administration and operation of each agency.

Crown agencies carry out their operations under the authority provided by relevant incorporating or enabling legislation. They are separate legal entities, which are created by an act of the Legislature or under general companies legislation. Their legislation may delegate broad financial and administrative powers or it may be very direct and specific. We feel that a system of compliance review and reporting to the House of Assembly is necessary to ensure the actions taken by Crown agencies are in compliance with the authority granted to them by legislation.

Commentary

Traditionally, audit reports on Crown agencies have focused on the expression of an audit opinion on the fairness of the financial

Accountability of Crown Agencies

statements. In the past we have commented in our Reports on issues of noncompliance with legislation when such matters came to our attention. In addition to attest audits, we now perform compliance audits of the activities of selected Crown agencies and other entities, which receive transfer payments from the Province, to assess their compliance with various legislation and regulations under which they are required to operate.

We are concerned that the members of the House of Assembly may not be receiving sufficient appropriate information to ensure proper accountability of certain Crown agencies. We believe a framework for accountability, financial management and control, and reporting should be established. In Chapter 2 of this Report we present a suggested framework. Such a framework should include operational as well as financial information and require disclosure of each agency's performance relating to its objectives and programs.

Findings

Our reviews during the current year lead us to conclude that further direction and monitoring may be needed to ensure compliance with legislation and regulations by these entities and to ensure consistency within their financial and administrative practices.

During the past year we have conducted a number of reviews which have resulted in comments and recommendations which are included in this Report. Some of these comments and recommendations which impact on the accountability of Crown agencies include the following:

1. Reports of Departments and Agencies (Chapter 3)
2. Audit of Transfer Payments (Chapter 3)
3. Audit of Workers' Compensation Commission (Chapter 5)
4. Review of Human Resource Management in Government (Chapter 3)
5. Review and Evaluation of Mainframe Computer Operations and Operational Policy and Procedures Manual (Chapter 3).

In addition, many of our audits during the past year have disclosed a number of areas where The Public Tender Act, 1984, is not being

Comments on Crown Corporations and Other Entities

complied with. In this Report we express our comments relating to compliance with that Act by the General Hospital Corporation, the Provincial Public Libraries Board, the Sir Thomas Roddick Hospital, the Western Integrated School Board and the Roman Catholic School Board for St. John's.

Conclusion and Recommendations

As a result of our various reviews during the current year, we feel that the present system of accountability over Crown agencies should be strengthened. To accomplish this, we make the following recommendations:

- A framework for accountability, financial management and control, and reporting by Crown agencies and other entities, which receive transfer payments from the Province, be established and supported by legislation. A suggested framework is included in Chapter 2 of this Report.
- Treasury Board consider establishing a system of accountability and control over all Crown agencies. This system of accountability and control should include the establishment and communication of clear policies, practices and procedures to ensure consistency within the practices of all such agencies.

5.3 Audit of Workers' Compensation Commission

Introduction

The Workers' Compensation Commission is a corporate body created under The Workers' Compensation Act (the Act). The Act provides that there shall be a Board of Directors responsible for the administration of the Act, which shall consist of not less than seven nor more than eleven members appointed by the Lieutenant-Governor in Council. The Act also provides that the Lieutenant-Governor in Council shall appoint a chief executive officer of the Commission. The Act further provides that the Auditor General shall audit the accounts of the Commission whenever he deems it expedient to do so.

Audit of Workers' Compensation Commission

Background

Accountability of the Commission

In Part 5.7 of our 1990 Report, we commented on the "Accountability of the Workers' Compensation Commission" and in Part 5.8 on the "Audit of the Workers' Compensation Commission".

We now report that while our comments relating to the accountability of the Commission have not been addressed by the Public Accounts Committee, the new "Auditor General Act" defines an agency of the Crown to include a commission, 50% or more of the board of directors of which, are appointed by the Lieutenant-Governor in Council or are responsible to the Crown for the proper discharge of their duties.

Therefore, in our view, this matter has been resolved and for the purposes of the Auditor General Act, the Workers' Compensation Commission is an *"agency of the Crown"* and the Auditor General must periodically examine the reports and records of the Commission and report his findings to the House of Assembly.

Financial position of the Commission

In Part 5.8 of our 1990 Report, we noted that the attest auditors of the Commission had expressed a reservation in their opinion on the financial statements of the Commission for the year ended December 31, 1989. We also reported that the Commission's December 31, 1989 financial statements disclosed an unfunded liability of approximately \$34.9 million.

Scope and Findings

During 1991 we reviewed the annual report, which contained the financial statements of the Commission for the year ended 31 December 1990, to determine whether the financial position of the Commission had improved.

1990 Attest Audit of the Commission

The attest audit of the financial statements of the Commission is performed by a private sector firm of Chartered Accountants. This firm expressed a reservation in its opinion on the financial statements of the Commission for the year ended December 31, 1990 as follows;

Comments on Crown Corporations and Other Entities

"In our opinion, except for the effect of changes, if any, in the liability for outstanding claims as referred to in Note 8, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1990, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles."

Note 8 to the Commission's financial statements for the year ended December 31, 1990 states:

"Other Matter

Amendments to the Workers' Compensation Act and Regulations effective January 1, 1984 have resulted in significant changes in the nature and amount of payments to injured workers. Experience of benefit programs was reviewed by the Commission's actuary in 1990 and the effect of such experience to date is reflected in these financial statements. However, sufficient experience is not yet available to estimate the full effect of legislated changes on the liability for outstanding claims."

Financial position of the Commission

In our 1990 Report, we noted that the financial statements of the Commission for the year ended 31 December 1989 had disclosed a \$34.9 million unfunded liability. We now report that the financial statements of the Commission for the year ended 31 December 1990 disclosed an unfunded liability of \$112.8 million. This unfunded liability has increased from \$10.7 million in 1988 to \$34.9 million in 1989 and to \$112.8 million in 1990.

Recommendation

In view of this increase in the unfunded liability of the Commission within the past three years, we feel that it is imperative that this matter be monitored closely and that appropriate action be taken to address this situation.

The Commission has informed us that the underlying reasons for the rising unfunded liability are as follows:

Provincial Public Libraries Board

The Public Tender Act, 1984

"\$51 million of the \$78 million increase in unfunded liability in 1990 is attributable to a change in accounting policy related to the liability for outstanding claims. The Commission has adopted the policy of recognizing in its financial statements the cost of future indexing of benefits payable to injured workers or dependents of fatally injured workers. Prior to 1990, the Commission had a recapitalization reserve sufficient to cover the costs of the subsequent year's statutory increase in survivor's benefits. In addition, the decision by the Commission's actuaries to use different actuarial assumptions and valuation methods resulted in an adjustment to actuarial estimates of future payments and awards for prior years injuries and added \$27 million to the unfunded liability."

We have also been informed that the Commission has embarked on a financial strategy to deal with this funding deficiency.

5.4

Provincial Public Libraries Board The Public Tender Act, 1984

Our audit of the Provincial Public Libraries Board for the years ended 31 March 1989 and 31 March 1990 disclosed that the Board did not comply with The Public Tender Act, 1984, (the Act) in the following instances:

1. Section 3(1) of the Act states *"Where a public work is to be executed under the direction of a government funded body or goods or services are to be acquired by a government funded body, the government funded body shall invite or cause to be invited tenders for the execution or acquisition."*

(a) On 7 July 1988 the Board acquired three mini vans from a local dealer without the issue of a public tender. The explanation obtained from the financial administrator was that the three vehicles were required on an immediate basis and that the dealer was the only supplier who could provide the Board with three such vehicles at that time. The reason given for the immediate need was that one vehicle in use had been written off in an accident while two others were due to be replaced. In the financial administrator's opinion a better combined price was achieved by buying three vehicles from one supplier.

(b) On 26 March 1990 a pick-up was purchased for the St. John's City Public Library Board from a local dealer. Information supplied by the Chief Librarian responsible for the transaction revealed that

Comments on Crown Corporations and Other Entities

price quotations were invited from four local dealers with three dealers responding. It was observed that the lowest price quote of the three received was not accepted. The Chief Librarian's explanation was that from his review of a consumer guide he determined that the pick-up purchased was a better vehicle than the others quoted on. We have been informed that this vehicle was purchased from funds raised by the local board.

(c) On 27 November 1989 computer equipment was purchased from a local supplier for \$17,538. The financial administrator informed us that price quotations were requested and received from four potential suppliers. The final selection was made with the assistance of a consulting firm which had been contracted by the Board. Supporting documentation related to the transaction was requested from the financial administrator but could not be located.

2. Section 10 of The Public Tender Act, 1984, requires that a government funded body not tendering, for reasons as allowed under Sections 3 and 4 of the Act, must inform the Minister of Works, Services and Transportation of any such instances so that they may be included in the Minister's report tabled in the House of Assembly.

From our discussion with the Provincial Director it was learned that none of the noted instances were brought to the Minister's attention even though tenders were not called.

3. Section 9 of the Act states *"Where a tender is not required to be invited by reason of paragraph (a) or (b) of subsection (2) of section 3, the government funded body shall before a public work is to be executed under the direction of a government funded body or goods or services are to be acquired by a government body*

(a) obtain prices from at least three bona fide dealers, suppliers or contractors, if any, by direct quotation or by reference to trade catalogues or price lists or by such means as the government funded body may consider advisable; or

(b) establish for the circumstances a fair and reasonable price for the public work or the goods or services."

Audit of the Roman Catholic School Board for St. John's

We have been informed by a senior official of the Board that the Board did not comply with this section of the Act in many instances due to the time which would be required and the limited staff available.

Recommendation

We recommend that the Provincial Public Libraries Board implement proper controls and procedures to ensure compliance with The Public Tender Act, 1984.

5.5

Audit of the Roman Catholic School Board for St. John's

Introduction

In our Report to the House of Assembly for the year ended 31 March 1990, we reported that we would "review in considerable detail in future years" the area of transfer payments made by the Province to various agencies. One area of review in the current year is transfer payments made by the Department of Education to school boards.

As part of our audit of transfer payments for the year ending 31 March 1991, we selected two school boards for detailed testing. The Roman Catholic School Board for St. John's, with 39 schools serving over 19,000 students, was one of those selected.

Scope and Objectives

Our audit testing was directed primarily to those systems and transactions relating to financial management, fixed assets and purchasing. Other areas, such as transportation and salaries, were not included in this review but may form part of future audits of transfer payments. Our audit procedures included testing for compliance with the various authorities under which the School Board operates. Our review was designed to assess whether

- the financial management system was adequate to provide information to management and the Board for decision-making and control of the Board's revenues and expenditures and was in compliance with The Schools Act and related regulations;
- the policies and procedures relating to fixed assets were adequate to ensure their control and proper use; and

Comments on Crown Corporations and Other Entities

- the purchasing system was adequate to ensure monitoring and control of the purchase function and compliance with statutory requirements.

Conclusions

Financial Management

We found many aspects of financial management at the School Board inadequate. A stronger system of financial management and accounting controls is necessary to ensure compliance with the provisions of various legislation applicable to the Board, to ensure compliance with the policies and procedures required by the Minister of Education in accordance with the provisions of The Schools Act and to ensure adequate accountability over the public money received from the Department of Education. The budgeting and reporting process, as well as financial statement presentation, could all be improved. Information flows between school officials, school board staff, school board executive and the Department of Education should be strengthened, formalized by proper documentation and enforced through a process of regular review and audit.

Fixed Assets

Many of the standard controls, such as reconciling counts to records or tagging of assets, are not in effect. Recording of additions and disposals appears to be haphazard and incomplete.

Purchasing System

Many of our concerns with the purchasing system at the School Board related to a failure to follow procedures as required by The Public Tender Act, 1984. Certain transactions, such as a fuel oil contract and a purchase of carpet, give rise to questions relating to the tendering process. Taken in consideration with our other findings, we have serious concerns as to whether there are adequate controls in place to ensure that School Board purchases are made in compliance with the required policies and procedures of the Board and of The Public Tender Act, 1984, and Regulations.

Audit of the Roman Catholic School Board for St. John's

Findings and Recommendations

Financial Management

1. Noncompliance with reporting requirements

Section 12(j) of The Schools Act requires every school board to *"keep an accurate record of all receipts and expenditures and ensure that each and every grant received from the Department is expended only for the purpose for which it is made and prepare and submit to the Minister at the end of each school year a detailed statement of its accounts audited by a firm of certified or chartered accountants and in such form as may from time to time be prescribed by the Minister..."*.

Our review disclosed that the School Board's financial statements as at 30 June 1990 were not prepared in accordance with the School Board Financial Reporting Manual issued by the Department of Education under the authority of this provision. As a result, the School Board failed to comply with this section of The Schools Act. Some examples of noncompliance include the following:

- There is no Statement of Changes in Capital Fund as required. Instead there is a Statement of Capital Fund Revenues and Expenditures. This statement is not comparable to the prescribed Capital Fund Statement as major capital revenue and expenditures are excluded.
- The notes to the financial statements do not detail changes in the Investment in Fixed Assets Account as required.
- There is no schedule of Details of Property and Equipment showing additions and disposals as required.
- The fixed assets figure disclosed on the Balance Sheet does not include the value of buildings or property on hand prior to June 1989. Also, the furniture and fixtures and capital equipment are not recorded on the Balance Sheet as required.
- Capital grants from the Catholic Education Council are not disclosed separately as required.

Comments on Crown Corporations and Other Entities

- Fund accounts are not all disclosed separately as required. The Capital Fund Balance Sheet includes a Current Fund bank loan in excess of four million dollars while the notes to the financial statements state *"It is customary for School Boards to account separately for the Current and Capital Funds."*

The method presently used for recording capital transactions and inter-fund transactions makes it very difficult to quantify or interpret these amounts. The failure to comply with the reporting requirements, as outlined, greatly limits the usefulness of the financial statements to the Department of Education.

We recommend that the financial statements be prepared in accordance with the requirements outlined in the School Boards Financial Reporting Manual as prescribed under section 12(j) of The Schools Act.

2. No financial management policies and procedures manual

Our review disclosed that there is no financial management manual outlining the policies and procedures to be followed in the financial management area. Such procedures should include a formal schedule for budget preparation and review, procedures for the control and monitoring of variances, procedures to control fixed assets and other control procedures necessary to ensure compliance with the various legislation and regulations applicable to the Board.

We recommend that the School Board prepare and approve a financial management manual to be used for the documentation and communication of Board policies and procedures in the area of financial management and accounting control.

3. Board minutes not properly signed

Our review disclosed that School Board minutes are not being signed as being approved by the Chairman.

Section 29(2) of The Schools Act states *"At every meeting of a School Board or Executive Committee the minutes of the previous meeting, corrected if necessary, shall be signed by the chairman or other person acting in his place."* Minutes of the School Board document key policy and financial decisions of the School Board.

Audit of the Roman Catholic School Board for St. John's

We recommend that all minutes be signed by the Chairman to ensure compliance with The Schools Act and to indicate that they have been reviewed for completeness and accuracy.

4. Increase in debt charges leading to cash flow problems

Our review disclosed that the Board has incurred substantial increases in overdraft charges in recent years because of the significant growth in bank loans. Debt charges have increased from \$117,265 at 30 June 1986 to \$1,225,189 at 30 June 1990. Bank loans have increased from \$310,000 to \$11,891,665 over the same period.

We have been informed by the Board that these overdraft charges relate to interest on capital loans which were incurred so as to continue with the Board's capital construction plan.

The rapid growth in debt and debt charges may be contributing to the current cash flow problems being experienced at the School Board as overdraft charges are expected to be over \$1.5 million for the 1991 school year. Of the \$275 per student operating grant provided by the Department of Education, over \$78 per student will be used to service this debt. We could find no allocation for bank charges nor summary of borrowing requirements in the proposed 1990-91 Operating Budget.

We recommend that the School Board develop formal cash management policies and procedures to ensure that bank indebtedness and interest charges are kept at an acceptable level.

5. Deficiencies in the budget process

Our review disclosed the following weaknesses in the budget process:

- no formal schedule in effect for budget preparation and review;
- no formal guidelines in effect for the monitoring and control of budget variances; and
- lack of input by school officials, school board executive and the Department of Education into the budget process.

We recommend that the School Board, in consultation with the Department of Education and school officials, review the present budget process in an effort to overcome these deficiencies.

Comments on Crown Corporations and Other Entities

6. Enrolment figures not being verified

Operating grants to school boards are based on enrolment data received from the various schools. Our review disclosed that enrolment figures were not being verified by the School Board.

We recommend that the School Board verify enrolment figures to ensure accuracy and completeness of grants to the Board.

7. Role of the Finance Committee

The Finance Committee's terms of reference describe the role of the Committee as being an advisory committee reporting to the Board. The Finance Committee has no authority other than specifically delegated by the board executive.

On November 28, 1989 the Finance Committee approved a \$2,500 honorarium paid to a senior employee, to compensate him for overtime and responsibility assumed relating to school board elections.

On March 17, 1989 the Finance Committee was informed of a salary overpayment made to employees costing the School Board an additional \$2,800. This error had not been corrected as it was felt that the cost in employee relationships outweighed the financial gain to the Board. The Committee accepted this decision after being informed that steps had been taken to ensure that this doesn't happen in the future.

We could find no evidence that the School Board approved these decisions or delegated the authority for approval to the Finance Committee.

We recommend that the School Board ensure the Finance Committee's role and authority is clearly defined, understood and followed.

8. Appointment of consultants

Our review disclosed that the School Board had no formal guidelines in place for the hiring of consultants.

We recommend the School Board develop and implement guidelines to be observed in all instances where the School Board directly engages the services of an external consultant. The School Board may wish to consider similar guidelines followed by government

Audit of the Roman Catholic School Board for St. John's

departments under the direction of Treasury Board's *"Guidelines Covering the Hiring of Consultants"*, October 1985.

9. Role of the external auditor

Our review disclosed that there appears to be some confusion as to the role of the external auditor in the examination and report on the School Board's financial statements.

Section 12(j) of The Schools Act, as described above, requires that the audited statements be in a form prescribed by the Minister.

Section 16(i) of The Schools Act lists one of the duties of a Business Manager is to: *"arrange to have the accounts of the School Board audited by a firm of certified or chartered accountants ..."*. Section 39(4) of The Schools Act states in part: *"If any audit carried out under this section or any other section of this Act shows that any grant or grants are not being expended for the purposes prescribed by this Act ..."*.

The School Board Financial Reporting Manual requires an audit opinion on whether the financial statements were presented fairly in accordance with generally accepted accounting principles and were in compliance with the reporting requirements established for school boards by the Department of Education, applied on a basis consistent with that of the preceding year.

Discussions with the external auditors disclosed that they had been engaged to perform an attest audit, leading to a standard audit opinion, on the Board's general purpose financial statements. Consequently, they had issued their standard non-statutory engagement letter to the Board. Their audit opinion made no reference to the reporting requirements established by the Department of Education for School Boards as described in the School Board Financial Reporting Manual.

It is our view that section 39(4) of the Act implies a responsibility on the auditor to examine the expenditure of grants for compliance with The Schools Act.

We believe that the standard attest audit does not give adequate assurance to the Minister of Education that the School Board has completed its duties in compliance with The Schools Act and other relevant legislation. We recommend that the Board ensure the

Comments on Crown Corporations and Other Entities

appointment of auditors is documented as a statutory engagement and the auditors' duties and responsibilities as set out in The Schools Act are included in their engagement letter.

Fixed Assets

The School Board has a significant investment in movable assets. Items such as computers, television sets and other audio-visual equipment are particularly susceptible to loss through misuse, theft or damage through other causes. Adequate physical and accounting controls should be in place for all movable assets. Our review disclosed guidelines have not been developed or are not in effect to provide adequate control over movable assets.

The following weaknesses were noted:

- There was no fixed asset ledger maintained at the School Board. There was a *"Capital Inventory Cost Centre Report"*, however it had not been updated over the past two years.
- Annual physical counts are not performed on the movable assets.
- There is no reconciliation of assets on hand to the accounting records.
- Identification tags are not in use.
- Additions, transfers, disposals and write-offs of assets are not adequately controlled.

As a result of our review we feel the School Board's physical and accounting controls over movable assets are inadequate.

In order to maintain control over movable assets, we recommend that the School Board prepare and approve guidelines to be followed and take the necessary steps to ensure compliance with these guidelines.

Purchasing System

1. Purchasing policy and procedures not current

Our review disclosed that the School Board's formal purchasing policy and procedures are not current. Many of the documented procedures

Audit of the Roman Catholic School Board for St. John's

are no longer in effect. In addition, there are no formal procedures in place to ensure compliance with The Public Tender Act, 1984.

We recommend that the School Board update its purchasing procedures to reflect its current policy and the requirements of The Public Tender Act, 1984.

2. Tendered bids not adequately controlled

Our review disclosed that tender documents are not deposited into a locked box upon receipt from a contractor.

We recommend that all tendered bids be properly secured by the School Board in a locked box until the tender opening. The School Board should also consider the use of a time clock to stamp the tender documents when received.

3. Noncompliance with The Public Tender Act, 1984

Section 3(1) of The Public Tender Act, 1984, requires all purchases go to tender unless the purchase is classified under section 3(2) which provides for various exceptions.

Section 10 of Our Act requires the head of the school board to inform the Minister of Works, Services and Transportation of purchases made over \$5000 for which no tender was called.

Our review disclosed the following:

Purchase Order 50588

An expenditure of \$8,447.47 for various items did not go to tender and we could find no evidence that the School Board complied with the relevant sections of The Public Tender Act, 1984.

Discussions with the School Board staff revealed that purchases coming under the provisions of section 10 are not reported to the Minister of Works, Services and Transportation as required.

Purchase Order 50582

Our review disclosed that the School Board accepted the low bid from a vendor for the amount of \$193,752 based on a tender call for roof

Comments on Crown Corporations and Other Entities

repairs. Three days later the Properties and Services Committee changed the specifications of the tender and the vendor reduced the bid to \$127,700; a difference of \$66,052 or 34% of the original contract.

Section 5(2) of The Public Tender Act, 1984, requires the approval of the School Board for any change order in excess of \$15,000 or 10% of the value of the original tender.

Section 7 of the Act allows the School Board to delegate the power to approve this change order under section 5(2) subject to the approval of the Lieutenant-Governor in Council.

Although this change order was approved by the Properties and Services Committee, we could find no evidence that the School Board approved the change as required. In addition, there was no evidence that the School Board had obtained the appropriate approval of the Lieutenant-Governor in Council to delegate their power to the Property and Services Committee.

Purchase Order 51388

Purchase order 51388 for \$4,620 dated 4 September 1990 authorized the supply and installation of carpet and tile at Holy Trinity Elementary School. Our review disclosed that purchase orders 51386 to 51390 totalling \$15,700 were also issued on 4 September 1990 for the supply and installation of carpet and tile at Holy Trinity Elementary School. In essence, five consecutive purchase orders resulting in five separate invoices were issued on the same day for the supply and installation of carpet and tile at this school. All work was awarded to one vendor without going to public tender.

Similarly, purchase orders 50886 and 50887 totalling \$5,190 were issued on 16 August 1990 for the supply and installation of carpet and tile at Beaconsfield High School. This work was also awarded to the same vendor without going to public tender.

Our review disclosed that over \$56,000 of similar work was awarded to this vendor during the months of August, September and October without going to public tender.

Audit of the Roman Catholic School Board for St. John's

It is our view that some of these transactions should have been combined and, where the combined amount was over \$5,000, public tenders should have been called.

4. Other matters - fuel oil contract

Correspondence on file indicates that, during January 1990, the School Board was informed that they were not in compliance with The Public Tender Act, 1984, regarding the purchase of furnace oil for schools.

Our review disclosed that the School Board, without going to public tender, entered into an agreement with a particular supplier, during March 1990, to supply fuel oil to various schools over a four year period ending 30 September 1994.

A letter from the School Board files indicates that the company would release the School Board of its obligation only upon an order of the court.

The School Board did tender for the purchase of fuel oil on 2 August 1990.

We have the following concerns with the transactions dealing with the purchase of fuel oil.

- Proper procedures were not in place to ensure the purchase followed The Public Tender Act, 1984, in the first instance.
- The Board failed to follow the requirements of the Act until eight months after they were made aware of their violation.
- Shortly before going to public tender, the Board entered into a four year contract with the vendor who ultimately became the successful bidder.

5. Other matters - purchase of an information management system.

On 22 September 1990, the Board invited tenders for *"the supply and installation of both software and hardware for a complete student and financial administration system at Central Board Office."*

The School Board staff were unable to provide us with the tender evaluation and unsuccessful tender bids for the purchase of the

Comments on Crown Corporations and Other Entities

information management system. Officials of the School Board informed us that this documentation had been lost. They were, however, able to provide us with the bid from the successful bidder.

It is of serious concern that documentation required to support this public tender should have been lost. As a result, we were unable to determine whether the School Board complied with The Public Tender Act, 1984, in the purchase of the information management system.

We recommend that the School Board take the necessary steps to ensure all documentation is kept on file to support compliance with The Public Tender Act, 1984.

5.6 Audit of the Western Integrated School Board

Introduction

Over 6,000 students attended the 17 schools of the Western Integrated School Board during the 1991 school year. The Board's combined capital and current expenditure during this period exceeded \$24 million, of which over \$22 million was funded by the Department of Education.

Scope and Objectives

Our audit of the Board was directed primarily to those systems and transactions relating to financial management, fixed assets and purchasing. Other areas, such as transportation and salaries, were not included in this review but may form part of future audits of transfer payments. Our audit procedures included testing for compliance with the various authorities under which the School Board operates. Our audit was designed to assess whether

- the financial management system was adequate to provide information to management and the Board for decision-making and control of the Board's revenues and expenditures and was in compliance with The Schools Act and related regulations;
- the policies and procedures relating to fixed assets were adequate to ensure their control and proper use; and

Audit of the Western Integrated School Board

- the purchasing system was adequate to ensure monitoring and control of the purchase function and compliance with statutory requirements.

Conclusions

Financial Management

In general, we found many aspects of financial management at the School Board adequate, but there were a number of weaknesses. A strong system of financial management and accounting controls is necessary to ensure compliance with the provisions of the various legislation applicable to the Board, to ensure compliance with the policies and procedures required by the Minister of Education in accordance with the provisions of The Schools Act and to ensure adequate accountability over the public money received from the Department of Education.

Information flows between school officials, school board staff, school board executive and the Department of Education should be formalized by proper documentation and enforced through a process of regular review and audit.

Fixed Assets

Many of the standard controls, such as reconciling counts to records or tagging of assets, are not in effect.

Purchasing System

Our concerns with the purchasing system at the School Board relate mainly to a failure to follow procedures as required by The Public Tender Act, 1984. In general, there seemed to be a failure to differentiate between public tenders and requests for quotations.

Findings and Recommendations

Financial Management

1. No financial management policies and procedures manual

Our review disclosed that there is no financial management manual in place outlining the policies and procedures to be followed in the

Comments on Crown Corporations and Other Entities

financial management area. This manual should include a formal schedule for budget preparation and review, procedures for the control and monitoring of variances, procedures to control fixed assets and other control procedures necessary to ensure compliance with the various legislation and regulations applicable to the Board.

We recommend that the School Board prepare and approve a financial management manual to be used for documentation and communication of Board policies and procedures in the area of financial management and accounting control.

2. Borrowing without proper approval

Section 13(m) of The Schools Act requires the written approval of the Minister of Education and of the proper Education Committee for borrowing by a School Board in excess of five thousand dollars in any one year. The audited financial statements of the Board for the year ended 30 June 1991 show bank indebtedness on Current Account as \$1,670,050. Documentation at the Board indicates that written approval was obtained as required under section 13(m) to borrow \$1,000,000 for an operating line of credit.

We could find no evidence of approval by the Minister of Education or Education Committee to borrow the additional \$670,050.

We recommend that the School Board ensure proper approvals are obtained, as required by The Schools Act, prior to entering into borrowing arrangements with its bank.

We have been informed by the Board that this is an accounting practice used at year end whereby cheques are issued for the accounts payable, thus reducing the accounts payable to a minimum. These cheques are not disbursed until funding becomes available within the approved line-of-credit.

3. Noncompliance with financial reporting requirements

Our review of the 30 June 1991 financial statements of the Board disclosed that the Board did comply in most respects with the disclosure format required by the Minister of Education under authority of section 12(j) of The Schools Act. One exception, however, was in Schedule 9(c) which shows interest expense of

Audit of the Western Integrated School Board

\$312,837 under Capital Account. Over half of this expense relates to interest charges on Current Account borrowing.

We recommend that the School Board comply fully with the reporting requirements of the Department of Education. Various performance indicators used by the Department in their accountability process are undermined when school boards deviate from the established reporting format.

4. Budget process

Our review disclosed the Board's budgeting process is adequate. This includes

- written formal procedures for budget preparation;
- input from school officials and school board executive; and
- monthly monitoring and control of budget variances.

The main deficiency in the process is the lack of a formal system for individual schools to monitor their budget allocation. At the time of our review, the Board was in the process of implementing such a system for each school.

5. Enrolment figures not being verified

Operating grants to school boards are based on enrolment data received from the various schools. Our review disclosed that enrolment figures were not being verified by the School Board.

We recommend that the School Board verify enrolment figures to ensure accuracy and completeness of grants to the Board.

Fixed Assets

The School Board has a significant investment in movable assets. Items such as computers, television sets and other audio-visual equipment are particularly susceptible to loss through misuse, theft or damage. Adequate physical and accounting controls should be in place for all movable assets. Our review disclosed the following weaknesses in the current system:

Comments on Crown Corporations and Other Entities

- There is no fixed asset ledger maintained at the School Board.
- There is no reconciliation of assets on hand per physical counts to the accounting records.
- Identification tags are not in use for all assets.

As a result of our review, we feel the School Board's physical and accounting controls over movable assets need to be improved.

In order to maintain control over movable assets, we recommend that the School Board prepare and approve guidelines to be followed and take the necessary steps to ensure compliance with these guidelines.

Purchasing System

1. Purchasing policies and procedures not documented

Our review disclosed that the School Board's purchasing policies and procedures are not documented. In addition, there are no procedures in place to ensure compliance with The Public Tender Act, 1984.

We recommend that the School Board document its purchasing procedures to reflect its current policies and the requirements of The Public Tender Act, 1984.

2. Noncompliance with The Public Tender Act, 1984

(a) Section 11 of The Public Tender Act, 1984, requires all tenders be opened in public at the prescribed time and place. Our review disclosed that not all tender advertisements stated the time and place of the opening of tenders. In addition, School Board staff informed us that tenders were not opened in public unless specifically stated.

We recommend that all tendered bids be opened in public and that this be stated in the advertisement.

(b) Section 3(1) of The Public Tender Act, 1984, states that tenders are required for all purchases unless the purchase is classified under section 3(2) which provides for various exceptions.

Audit of the Western Integrated School Board

Section 10 of the Act requires the head of the school board to inform the Minister of Works, Services and Transportation of purchases made over \$5,000 for which no tender was called.

Our review disclosed several purchases which were not in compliance with The Public Tender Act, 1984. These include the following:

- Invoice 4985 was for fluorescent bulbs of a particular quality. We were informed there was only one known supplier.
- Invoices 19578, 12683 and 17188 were from suppliers who gave written quotations. No public tenders were advertised.

Discussions with Board staff revealed that purchases coming under the provisions of section 10 are not reported to the Minister of Works, Services and Transportation as required. Board staff appeared unfamiliar with their responsibilities under The Public Tender Act, 1984.

We recommend the School Board immediately implement policies and procedures to ensure compliance with The Public Tender Act, 1984.

3. Other matters - fuel oil contract

Fuel oil purchases exceeded \$150,000 for the year ended 31 March 1991. Public tenders were not called for these purchases. School Board staff explained a contract was signed approximately three years ago and at that time prices were obtained through written quotes. We were unable to locate the contract or documentation on the quotation responses.

At the time of our review, the School Board was in the process of calling for quotations for its fuel oil contract. This was being done through written requests to various suppliers. After discussions with our audit staff, the Board agreed to go to public tender for the purchase of fuel oil.

We recommend that the School Board take the necessary steps to ensure all documentation is kept on file to ensure compliance with The Public Tender Act, 1984. We also recommend the Board review its tendering procedures to ensure all prospective bidders have equal opportunity to respond to a tender call.

Comments on Crown Corporations and Other Entities

5.7

Audit of the General Hospital Corporation - Health Sciences Centre

Introduction

The General Hospital Corporation is responsible for the Health Sciences Centre and the Leonard A. Miller Centre located in St. John's. For the year ended 31 March 1991, the Corporation had expenditures and revenues exceeding \$100 million. Revenues consisted of grants of approximately \$86.7 million from the Department of Health and approximately \$13.6 million from other sources.

As part of our audit of transfer payments for the year ended 31 March 1991, we selected two hospitals for detailed testing. The Health Sciences Centre, a 341 bed acute care hospital providing a comprehensive range of in-patient and out-patient services, was one of those selected.

Scope and Objectives

Our audit testing was directed primarily to those systems and transactions relating to financial management, fixed assets, inventory and purchasing. Our audit procedures included testing for compliance with the various authorities under which the Hospital operates. Our review was designed to assess whether

- the financial management system was adequate to provide information to management and the Board for decision-making and control of the Board's revenues and expenditures and was in compliance with The General Hospital (Management) Act and related regulations;
- the policies and procedures were adequate relating to the control and use of fixed assets;
- the policies and procedures were adequate relating to the control and use of inventory; and
- the purchasing system was adequate to ensure monitoring and control of the purchase function and compliance with statutory requirements.

Audit of the General Hospital Corporation - Health Sciences Centre

Conclusions

Financial Management

In general, we found that most aspects of financial management at the Corporation were adequate.

Fixed Assets

Adequate physical and accounting controls over fixed assets do not exist. A complete fixed asset ledger is not maintained. The last physical count of fixed assets was performed in October 1989 and items have not been tagged since that date.

Inventory

Accurate records of inventories are not maintained for management control purposes. Large adjustments were recorded to reconcile the results of the physical inventory count to the general ledger.

Purchasing System

Policies and procedures are in place to ensure control over the acquisition of materials. The purchasing system is adequate to ensure monitoring and control of the purchase function. However, we did note several instances of noncompliance with The Public Tender Act, 1984.

Detailed Findings and Recommendations

Financial Management

I. Noncompliance with The General Hospital (Management) Act

Section 14(1) of The General Hospital (Management) Act states "The chairman... shall in each financial year, and not less than six months before the end of that year, make a report to the Minister showing the work done during the financial year immediately preceding that in which the report is made and setting forth any other data that may be of interest in connection with the report."

Our review disclosed that the General Hospital did not prepare an annual report for the years ended 31 March 1988, 1989 and 1990.

Comments on Crown Corporations and Other Entities

We recommend that the Hospital comply with the provisions of The General Hospital (Management) Act.

2. Appointment of consultants

Our review disclosed that the Hospital had no guidelines in place for the hiring of consultants, including the appointment of auditors. As a result, the Hospital has selected the same auditor after their three-year appointment had expired without a call for proposals or tender.

We recommend the Hospital develop and implement guidelines to be observed in all instances where the Hospital directly engages the services of an external consultant. The Hospital may wish to consider similar guidelines followed by government departments under the direction of Treasury Board's "Guidelines Covering the Hiring of Consultants", October 1985.

3. Management letters and other reports not submitted to the Department of Health

The Corporation's external auditors generally issue a management letter as a result of their annual audit. In addition, the Corporation has had internal reviews and an operational review performed. The management letter and other reports are not submitted to the Department of Health for its review.

Information obtained from these reports should be evaluated by the Department of Health to alert officials of potential areas of concern.

We recommend that all financial and operational reviews performed resulting in reports issued to the Corporation be submitted to the Department of Health. We feel such reporting will aid in the accountability process between the Corporation and the Department.

Fixed Assets

The General Hospital Corporation has a substantial amount of funds invested in fixed assets. The Corporation reported in its 31 March 1991 financial statements equipment with a net book value of \$10,790,725. The principal ingredient to effective control is the maintenance of a fixed asset ledger showing details, such as description, identification number, location and date of purchase. Our review disclosed guidelines have not been developed or are not in

Audit of the General Hospital Corporation - Health Sciences Centre

effect to provide adequate control over fixed assets. The following weaknesses were noted:

- ❑ The Corporation does not maintain a fixed asset ledger. The external auditor, in a management letter dated 5 August 1986, recommended "the Corporation investigate the possibility of implementing a fixed asset ledger." The Corporation prepared a partial fixed asset listing in October 1989. Since that date, the listing has not been updated.
- ❑ Annual physical counts are not performed. To date, a complete physical count of fixed assets has never been performed. Only a partial count was performed in October 1989.
- ❑ There is no reconciliation of assets on hand to the accounting records.
- ❑ All fixed assets are not tagged. In October 1989, the items that were counted were tagged for identification purposes. Since that date, no items have been tagged.
- ❑ We selected a sample of ten pieces of equipment and checked for existence. One item could not be located.

We recommend that the Corporation implement adequate physical and accounting controls over fixed assets. This would involve the implementation of a fixed asset ledger, annual physical counts, reconciliation of assets on hand to the accounting records and the use of identification tags.

Inventory

During 1990 and 1991, the Corporation's Internal Auditor performed reviews of the Stores Inventory System, the Pharmacy Inventory System and the Department of Dietetics. The main purpose noted for undertaking these reviews was to analyze why large adjustments were required to adjust inventory recorded in the general ledger to inventory as per the physical count. It was noted in these reports that this problem was the result of system deficiencies and a breakdown in controls. Numerous recommendations were made to improve the accuracy of the systems. As a follow-up to these reports, we reviewed the results of inventory counts subsequent to the internal reviews.

Comments on Crown Corporations and Other Entities

We found that accurate records of inventories are not maintained for management control purposes. For the following inventories, large adjustments were recorded to reconcile the results of the physical count to the general ledger. Although the records were adjusted on 30 September 1990, the records had to be adjusted again four months later on 31 January 1991 and again two months later on 31 March 1991.

	<u>Stores</u>	<u>Pharmacy</u>	<u>Dietary</u>
Date of Report	10 July 1990	25 Feb. 1991	8 March 1991
<u>30 Sept. 1990</u>			
Count	\$826,442.32	\$458,066.42	\$ 56,146.69
Adjustment	(105,098.06)	(135,708.20)	0
<u>31 Jan. 1991</u>			
Count	\$910,269.41	\$456,009.02	\$33,877.55
Adjustment	(70,846.00)	(69,780.00)	(67,773.72)
<u>31 Mar. 1991</u>			
Count	\$929,807.17	\$417,516.05	\$41,068.48
Adjustment	72,894.79	77,854.53	(4,963.60)

It appears the system deficiencies and/or the breakdown in controls still exist.

We recommend that management investigate further the reasons for the discrepancies and take appropriate action to correct the problems. Significant differences should be promptly investigated by management to minimize possible losses.

Purchasing System

1. Purchase Procedure Forms

The Department of Health requires Purchase Procedure Forms (PPFs) to be completed prior to ordering for approval of items or groups of items greater than \$10,000. We reviewed the PPFs for compliance

Audit of the General Hospital Corporation - Health Sciences Centre

with the Department's policy. Of the thirty-two PTF's issued by the Hospital, thirty-one were submitted to the Department for approval after the equipment had been purchased.

We recommend that the Hospital adhere to the requirements of the Department of Health regarding prior approval for purchases over \$10,000.

2. Non-compliance with The Public Tender Act, 1984

(a) Section 10 of The Public Tender Act, 1984, states "Where a public work is executed or goods or services are acquired or space is leased ... and a tender is not required to be invited by reason of paragraph (b)(i), or (c) of subsection (2) of section 3, or paragraph (b) of subsection (1) of section 4 or subsection (3) of section 4, the head of the government funded body shall inform the Minister of Works, Services and Transportation ...".

Three instances were noted where a public tender was not called and the Minister was not informed.

Purchase Order #	Amount	Reason
4044	\$ 8,843.52	Quotes obtained
44783	7,056.00	Emergency
49790	5,040.00	Equipment had been rented, then purchased

Hospital officials informed us that purchases coming under the provisions of section 10 are not reported to the Minister of Works, Services and Transportation as required.

(b) Section 3(1) of The Public Tender Act, 1984, states "Where a public work is to be executed under the direction of a government funded body or goods or services are to be acquired by a government funded body, the government funded body shall invite or cause to be invited tenders for the execution or acquisition."

Comments on Crown Corporations and Other Entities

Three instances were noted where items were purchased that were not included in the tender specifications and the Minister was not informed in each instance.

<u>Purchase Order #</u>	<u>Amount</u>
13278	\$5,512.64
48577	5,376.00
6568	6,270.03

(c) Section 8(1) of The Public Tender Act, 1984, states "*Where tenders are invited in accordance with this Act and it appears to the government funded body inviting or causing to be invited not to be expedient to award the contract to the preferred bidder, the head of the government funded body shall report to and obtain the authority of the Lieutenant-Governor in Council before rejecting the preferred bidder or awarding the contract to other than the preferred bidder.*"

Several instances were noted where the preferred bidder was not accepted and a Form A - "*Contract Award to Other Than the Preferred Bidder*" was not submitted to the Minister.

We recommend that the Corporation comply with all requirements of The Public Tender Act, 1984.

3. Tender evaluations

Our examination of public tenders disclosed that tender evaluations are performed for each tender but these evaluations are not adequately documented. A more organized and systematic procedure would be to complete a tender evaluation form for each public tender.

We recommend that the Corporation develop a tender evaluation form. This form will document the tender evaluation and ensure compliance with The Public Tender Act, 1984, and The Provincial Preference Act.

Audit of the General Hospital Corporation - Health Sciences Centre

4. Other matters - Visulas Argon Laser

The Corporation advertised a tender (Tender # 1990-0433) for a Visulas Argon Laser which closed on 26 July 1990. The specifications for this tender include, in addition to other specifications, the following:

- Fiber light guide must be 50 microns diameter fiber guide which allows full power to be delivered to the surgical area.
- Delivery system must be 30 SL/L slit lamp made specifically for Zeiss coagulation laser.
- Centering of laser beam - slit image and laser spot are moved in unison on the fundus (laser spot is always centered within the illuminated area). Area of fundus to be coagulated is always illuminated - even on the periphery.
- Micromanipulator - slit image is automatically moved with the laser spot. Servoelectric micromanipulator integrated into single-hand joystick of instrument base.

A letter in the tender file dated 14 March 1989 from a representative of a vendor to an employee of the hospital states, "...has asked me to send to you the lockout specifications for a Zeiss Visulas Argon Laser. I have taken the liberty of making the specifications out as if for a tender and filled in the answers that ...would give. The specifications that only ... can fulfil are as follows:

1. 50 micron fiber cable

2. 30 SL/L Slit Lamp made especially for the Zeiss Argon laser.

3. Slit image and laser spot are moved in unison on the fundus (laser spot is always centered in the illuminated area). Area of the fundus to be coagulated is always illuminated - even on the periphery.

4. Servoelectric micromanipulator integrated into single-hand joystick of instrument base."

Comments on Crown Corporations and Other Entities

Our review disclosed that only one vendor submitted a bid on this tender. It appears that the tender specifications were so specific that only one supplier could meet them. This was pointed out by the successful bidder in the above letter to the Corporation.

We feel that this transaction does not comply with the intent of The Public Tender Act, 1984, and recommend that the Corporation review the circumstances of this purchase to determine whether control procedures are in effect to ensure compliance with the Act.

5.8 Audit of the Sir Thomas Roddick Hospital

Introduction

The Sir Thomas Roddick Hospital Board is responsible for the Sir Thomas Roddick Hospital, located in Stephenville, and five satellite clinics located within its district. The hospital is a 70 bed acute district hospital providing a comprehensive range of in-patient and out-patient services.

As part of our audit of transfer payments for the year ending 31 March 1991, we selected two hospitals for detailed testing. The Sir Thomas Roddick Hospital, with expenditures exceeding \$11,000,000 for the year ended 31 March 1991, was one of those selected.

Scope and Objectives

Our audit testing was directed primarily to those systems and transactions relating to financial management, fixed assets and purchasing. Other areas, such as inventories and salaries, were not included in this review but may form part of future audits of transfer payments. Our audit procedures included testing for compliance with the various authorities under which the hospital operates. Our review was designed to assess whether

- the financial management system was adequate to provide information to management and the Board for decision-making and control of the Hospital's revenues and expenditures and was in compliance with The Hospitals Act and related regulations; and
- the policies and procedures relating to fixed assets were adequate to ensure their control and proper use; and

Audit of the Sir Thomas Roddick Hospital

- the purchasing system was adequate to ensure monitoring and control of the purchasing function and compliance with statutory requirements.

Conclusions

Financial Management

We found most aspects of financial management at the Hospital adequate. However, the policies and procedures dealing with cash management need to be improved. Equipment purchases beyond approved levels, increasing inventory values, employee loans and operating deficits all have a serious impact on cash flow.

Fixed Assets

Many of the standard controls, such as reconciling inventory counts to records or tagging of assets, are not in effect.

Purchasing System

Many of our concerns with the purchasing system at the Hospital related to a failure to follow procedures as required by The Public Tender Act, 1984. Policies and procedures for public tendering need to be formalized by proper documentation and enforced through a process of regular review and audit.

Findings and Recommendations

Financial Management

1. Increase in overdraft

Our audit disclosed that the Hospital has incurred an overdraft in each of the last five years. This overdraft has increased from \$615,746 at 31 March 1987 to \$1,172,906 at 31 March 1991. A number of factors have contributed to the rapid growth in debt. These include:

- the Hospital has incurred an operating deficit in each of the last four years;
- inventory has increased from \$214,103 at 31 March 1987 to \$475,990 at 31 March 1991;

Comments on Crown Corporations and Other Entities

- in both 1987 and 1989, expenditure on capital exceeded contributions by approximately \$75,000 and \$100,000 respectively; and
- the Hospital had employee loans outstanding at 31 March 1991 totalling \$72,034 and \$81,533 for the integrated and endowment funds respectively.

We recommend that the Hospital develop formal cash management policies and procedures to ensure that bank indebtedness is kept at an acceptable level.

2. Accounting treatment for prepaid expenses

Our audit disclosed that prepaid expenses at 31 March 1991 included \$97,204 for equipment which it had ordered but had not received. This amount was also recorded as shareable equipment and thus included in accounts receivable. This accounting treatment resulted in the same amount being recorded as a current asset twice and this caused the working capital position to appear to improve while there is no actual improvement.

We recommend that the Hospital review its accounting policy for the recording of prepaid expenses.

Fixed Assets

The Hospital has a significant investment in fixed assets that are particularly susceptible to loss through misuse, theft or damage. Our review disclosed that systems and procedures are not in effect to adequately control fixed assets. The following weaknesses were noted:

- Annual physical counts are not performed.
- Assets on hand are not reconciled to the accounting records.
- Identification tags are not in use.

In order to maintain control over fixed assets, we recommend that the Hospital document policies and procedures to be followed and take the necessary steps to ensure compliance with these policies and procedures.

Audit of the Sir Thomas Roddick Hospital

Purchasing System

1. Purchasing policies and procedures not documented

Our review disclosed that the Hospital's purchasing policies and procedures are not documented. In addition, there are no formal procedures in place to ensure compliance with The Public Tender Act, 1984.

We recommend that the Hospital document its purchasing procedures to reflect its current policies and the requirements of The Public Tender Act, 1984.

2. Insufficient documentation

Our review disclosed that tender evaluations were not documented in the tender files. In addition, there were no copies of correspondence to successful and unsuccessful bidders.

We recommend that formal procedures be established for processing tender documents. A tender evaluation form could be developed to document the evaluation process and to help ensure compliance with The Public Tender Act, 1984.

3. Noncompliance with The Public Tender Act, 1984

Section 3(1) of The Public Tender Act, 1984, states that tenders are required for all purchases unless the purchase is classified under section 3(2) which provides for various exceptions.

Section 10 of the Act requires the head of the Hospital to inform the Minister of Works, Services and Transportation of purchases made over \$5,000 for which no tender was called.

Our review disclosed several purchases which were not in compliance with The Public Tender Act, 1984. Expenditures of \$22,315.92 relating to purchase order 14406 and \$9,634.84 relating to purchase order 10846 for various items were not tendered and we could find no evidence that the Hospital complied with the relevant sections of The Public Tender Act, 1984.

Comments on Crown Corporations and Other Entities

Hospital officials informed us that purchases coming under the provisions of section 10 are not reported to the Minister of Works, Services and Transportation as required.

We recommend that the Hospital ensure that all purchases are in compliance with The Public Tender Act, 1984.

4. Noncompliance with The Public Tender Regulations

(a) Section 3(2) of The Public Tender Regulations states "A call for tender shall include the following: ... (f) the time and place of the opening of the tenders."

Our review disclosed that tender advertisements did not always include the time and place of the opening of tenders.

We recommend that the Hospital ensure all tender advertisements are prepared in accordance with The Public Tender Regulations.

(b) Section 4 of The Public Tender Regulations states "A government funded body inviting or causing to be invited tenders shall open the tenders in a place where the public is permitted to watch and at such time as shall be indicated in the call for tenders. No tender may be opened unless there are at least two witnesses present who are acceptable to the government funded body opening the tender."

Our review disclosed that attendance records of the public openings were not being prepared. Without attendance records, compliance with this section of The Public Tender Regulations cannot be verified.

We recommend that the Hospital ensure attendance records are prepared for all tender openings to document compliance with the Regulations.

CHAPTER

6

COMMENTS ON MATTERS REFERRED TO IN PRIOR YEARS' REPORTS



Chapter 6

Comments on Matters Referred to in Prior Years' Reports

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Comments on Matters Referred to in Prior Years' Reports

6.1 Introduction

This Chapter of the Report indicates the action taken or planned on recommendations and observations contained in prior years' Reports.

We have included a summary of the observations or recommendations related to topics that appeared in this Chapter of our 1989-90 Report which remain unresolved for the fiscal years 1987-88 and 1988-89 and a complete summary of our 1989-90 recommendations and observations. Those matters for which subsequent audit has yet to be undertaken to substantiate improvements reported by departments and agencies are also included.

This status report is based on audit work subsequently performed or enquiries made. Information received through enquiries and responses from departments and agencies as to the current status of corrective action taken or planned will be subject to future audit to determine the impact of such action.

This Chapter will be included in future Reports, but those matters which have been resolved as determined by further audit review will not be repeated.

Departmental Audit Observations

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year Page
6.2 Departmental Audit Observations		
Department of Finance		
Net foreign exchange losses were not classified as debt expenses and charged to current account expenditure.	See comments Chapter 3 of this Report.	1988 79 1989 92 1990 91
Provincial Pension Plans	See comments Chapter 3 of this Report.	1990 71- 74
- The report of the Commission of Enquiry on Pensions, and the Report of the Chairman have been received and Government is in the process of addressing the recommendations.		
- The net unfunded pension liability at year end is not recorded on the Province's Statement of Assets and Liabilities.		
- The Statement of Revenue and Expenditure does not reflect the actual value of pension benefits earned by employees during the year.		
The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants has recommended standards for good practice in financial reporting and accounting for governments. Many of these	See comments Chapter 3 of this Report.	1988 37- 47 1989 32- 38 1990 34- 40

Comments on Matters Referred to in Prior Years' Reports

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
recommendations have been implemented by the Province, however, there are still a number to be considered.		
Observed that the Taxation Information Management System when fully implemented is expected to improve controls in the areas of audit and collection of retail sales tax and thereby address our main concerns related to these functions.	We have been advised by the Department of Finance that the final phase of the system was implemented in May, 1990. Our future audit plans include a review of the system's impact on the financial management of the Province's retail sales tax revenues.	1988 77- 78
Expenditure covered by certain special warrants was made without legislative authority as required under section 22 of The Financial Administration Act, 1973.	Legislative authority was obtained for the current year.	1990 85- 86
Recommendations were made to strengthen the system of control over general service payroll expenditures relating principally to:	The departments have undertaken to strengthen their procedures in this area. Future audits will determine the extent of the improvements and their impact on the overall control system.	1988 66- 69 1990 74- 77
- segregation of incompatible duties; - payroll reconciliation; and - payroll authorization and review.		

Departmental Audit Observations

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
Department of Works, Services and Transportation		
Improvement and construction of roads within the jurisdiction of the St. John's Metropolitan Area Board was performed without statutory authority.	Comment still applies.	1990 103-104
Recommendations were made to strengthen the system of financial and operational control over government vehicles and equipment both in the Vehicle Fleet Management Division and in various Government Departments.	Our next audit in this area will review the extent to which our recommendations have been implemented and assess the impact on the system of control.	1988 58- 66
Department of Education		
The Department allocated salary units to school boards in excess of what should have been allocated under The Schools Act (Teachers Salaries) Regulations, 1979.	See comments Chapter 4 of this Report.	1988 84- 85
Many of our recommendations related to weaknesses in the Teachers' Payroll System were implemented during 1987-88. However, certain weaknesses which were common to Teachers' Certification, Teachers' Payroll and Teachers' Pensions Divisions as well as weaknesses which were unique to each division still existed at 31 March 1988.	Any additional controls implemented will be assessed in our next audit in this area.	1988 83- 84

Comments on Matters Referred to in Prior Years' Reports

Summary of Previously Reported Recommendations and Observations

Status - at Preparation of 1991 Annual Report

Reference Year Page

Recommendations were made to improve the system of control over the Student Aid Program and to ensure the completeness, accuracy and timeliness of the information produced by the system.

The Department has reported that corrective action has been or will be taken on the implementation of our recommendations. We will assess the result in our next audit in this area.

1990 98-102

Department of Social Services

Observation that ineligible social assistance was issued by an employee who did not have spending authority and that management control systems were not adequate to prevent or detect the unauthorized expenditure.

The Department advised that management control systems have been reviewed and were considered adequate. Audit will determine if the established procedures need further strengthening.

1988 107-110

Conclusion that the Department was not always adequately performing the required procedures to ensure the initial and ongoing eligibility of the recipients' social assistance entitlement and therefore was making payments in excess of legal entitlement.

The Department has reported the details of several improvements in systems and procedures in this area in the past fiscal year. Future review will determine the extent and impact of these improvements.

1988 116-121

Recommendation that the Department develop and implement a monitoring and reporting system at the District Office level in order to have assurances that:

The Department has advised that a formalized monitoring and reporting system became operational on 1 September 1990. We will be reviewing the details of this system in a future audit.

1988 121-123

- internal audit findings are promptly addressed and corrected;

Departmental Audit Observations

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
- there is an ongoing monitoring of compliance with established departmental procedures for issuing social assistance.	In addition to other measures the Department has dedicated resources to review and update the Social Assistance Policy Manual which will include all policies related to accounts receivable.	1988 123-129
Conclusion that administrative and accounting control over the recording, reporting, monitoring and collection of accounts receivable resulting from improper payments of social assistance should be strengthened.	The Department advises that current trust fund activity is being properly controlled. However, the final disposition of trust funds related to prior activity (August 1988) has yet to be determined. An opinion has been requested from the Department of Justice.	1988 130-132
Unresolved weaknesses were identified in financial management and accounting control systems for trust fund activities administered by the Child Welfare Division.	A number of initiatives have been undertaken to improve controls in this area which will be subject to future audit review.	1988 132-142
Recommendation that the Department undertake measures to strengthen administrative and accounting control in all areas of the rehabilitation program including:	- development and implementation of properly constituted legislative Regulations as provided for in The Rehabilitation Act;	Regulations have been drafted but not finalized.

Comments on Matters Referred to in Prior Years' Reports

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
- improved manual of policy and procedures;	A new policy manual has been drafted but not finalized.	
- adequate budget monitoring and control procedures;	A decentralized budget system has addressed the deficiency.	
- review and strengthening of service acquisition procedures;	A documented service acquisition agreement is to be introduced in 1992-93.	
- monitoring of compliance with the provisions of the Department's guidelines governing payments to non-government agencies;	Procedures have been improved in this area.	
- improved procedures for accumulating shareable costs for claiming federal revenue under the Vocational Rehabilitation of Disabled Persons Agreement;	The claiming process has been strengthened except in the area of obtaining timely information from the Community College System.	
- documented procedures to measure the performance of the program in terms of its stated objectives;	The program Advisory Committee has been mandated to review and assess the area of program effectiveness and coherency.	
- clearly defining and documenting the role and authority of training selection committees in all areas of responsibility.	Effective 1 December 1991 Regional Directors will assume the responsibilities of training selection committees using guidelines previously documented and issued.	

Departmental Audit Observations

<u>Summary of previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
Recommendation that action should be taken to ensure that claiming of the federal share of civil legal aid costs is carried out on a timely basis as provided for in the Canada Assistance Plan cost sharing agreement.	Costs continue not to be claimed on a timely basis. There is an indication from the Legal Aid Commission that this will be resolved by January 1992.	1988 142-143
Need for improved management control systems in support of the accountability process including:		1988 143-148
- sound budgetary control;	This area has been addressed through decentralized budgets and strengthened Regional financial management.	
- development and implementation of a manual of financial policies and procedures;	In September 1991 the Department dedicated resources to the development of a manual and the project is continuing.	
- strengthened internal audit function.	The Department considers that there has been a significant strengthening in this area.	

Department of Health

Recommended that the Department strengthen the financial control system over the Church and Interfaith Home program.	The Department has undertaken to strengthen procedures in this area. Future audits will determine the extent of the improvements.	1989 94- 96
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Comments on Matters Referred to in Prior Years' Reports

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year</u> <u>Page</u>
Department of Justice		
Recommendations were made to remedy an inadequate system of financial management and administrative control over the operations of the Province's courts and court related offices.	The Department has reported that substantial improvements have been made in this area. The timeframe for upgrading of controls, however, has been extended. This concern is presently under consideration.	1988 87-101
Weaknesses were identified in collection procedures for unpaid court fines.	The Department reports that systems and procedures have improved. We will review the impact of the improvements in our next audit.	1988 104-107
6.3 Crown Agency Audit Observations		
C.A. Pippy Park Commission		
Annual budget was not approved by the Lieutenant-Governor in Council in accordance with The Pippy Park Commission Act.	Comment still applies.	1988 152
Title to all land acquired was not vested in the name of the Commission as required by The Pippy Park Commission Act.	Comment still applies.	1988 150-152
Newfoundland and Labrador Youth Advisory Council		
Observation that we anticipated that the Auditor's Report on the financial statements of the Council would contain some form of reservation for the years ended 31 March 1989 and 1990 based on the lack of	A denial of opinion was expressed on the financial statements for the years ended 31 March 1989 and 1990. The audit for the year ended 31 March 1991 has not been completed	1990 114-115

Crown Agency Audit Observations

Summary of Previously Reported Recommendations and Observations

supporting documentation and
system deficiencies.

Status - at Preparation of 1991 Annual Report

at the time of this Report.

Reference Year Page

The Economic Council of Newfoundland and Labrador

Observation that the Council had
not complied with a requirement
of a Minute of Council ordering
that its employees be incorporated
under the Public Service Pension
Plan.

Comment still applies.

1988 159

Provincial Advisory Council on the Status of Women - Newfoundland and Labrador

Observation that the payment
of a transportation allowance
by the Council without proper
authority should be recovered.

Comment still applies.

1988 156

The annual budget was not
submitted to the Minister in
accordance with a provision
of The Status of Women
Advisory Council Act.

Annual budget for 1990-91
was submitted as required.

1988 156-157

Newfoundland and Labrador Housing Corporation

Opinion that the use of corporation
funds to purchase computers on
behalf of employees, under loan
agreements exceeds the authority
provided in The Newfoundland and
Labrador Housing Corporation Act.

Comment still applies.

1989 98 -99

Conclusion that certain
expenditures were inappropriate
in that they are not provided for in
The Newfoundland and Labrador
Housing Corporation Act.

Comment still applies.

1989 99

Comments on Matters Referred to in Prior Years' Reports

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
Observation that the annual budget was not adopted in accordance with a provision of the governing legislation.	Budget for 1991-92 fiscal year was adopted.	1990 117

Rural Development Authority

Observation that the practice of providing financial assistance for purposes that do not clearly improve or enhance rural development is in contravention of the governing legislation.	Comment still applies.	1990 116
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Workers' Compensation Commission

Observation that in our view the Commission is an agency of the Crown and therefore should be accountable to the House of Assembly. As well, we must have access to the records of all such Crown agencies for purposes of reporting to the House of Assembly.	The new Auditor General Act under section 2 resolves this issue by defining an agency of the Crown. This definition would include the Workers' Compensation Commission.	1990 117-118
Observation that the matter of the Commission's unfunded liability should be monitored closely and that appropriate action should be taken to address the situation.	See comments Chapter 5 of this Report.	1990 118-120

Government Wide Audit Observations

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year Page
Provincial Public Libraries Board		
The Board continued to operate with inadequate controls to safeguard assets and to ensure the completeness and accuracy of its financial information resulting in the expression of adverse opinions in the Auditor's Reports for several fiscal years.	Comment still applies.	1989 99-100

6.4 Government Wide Audit Observations

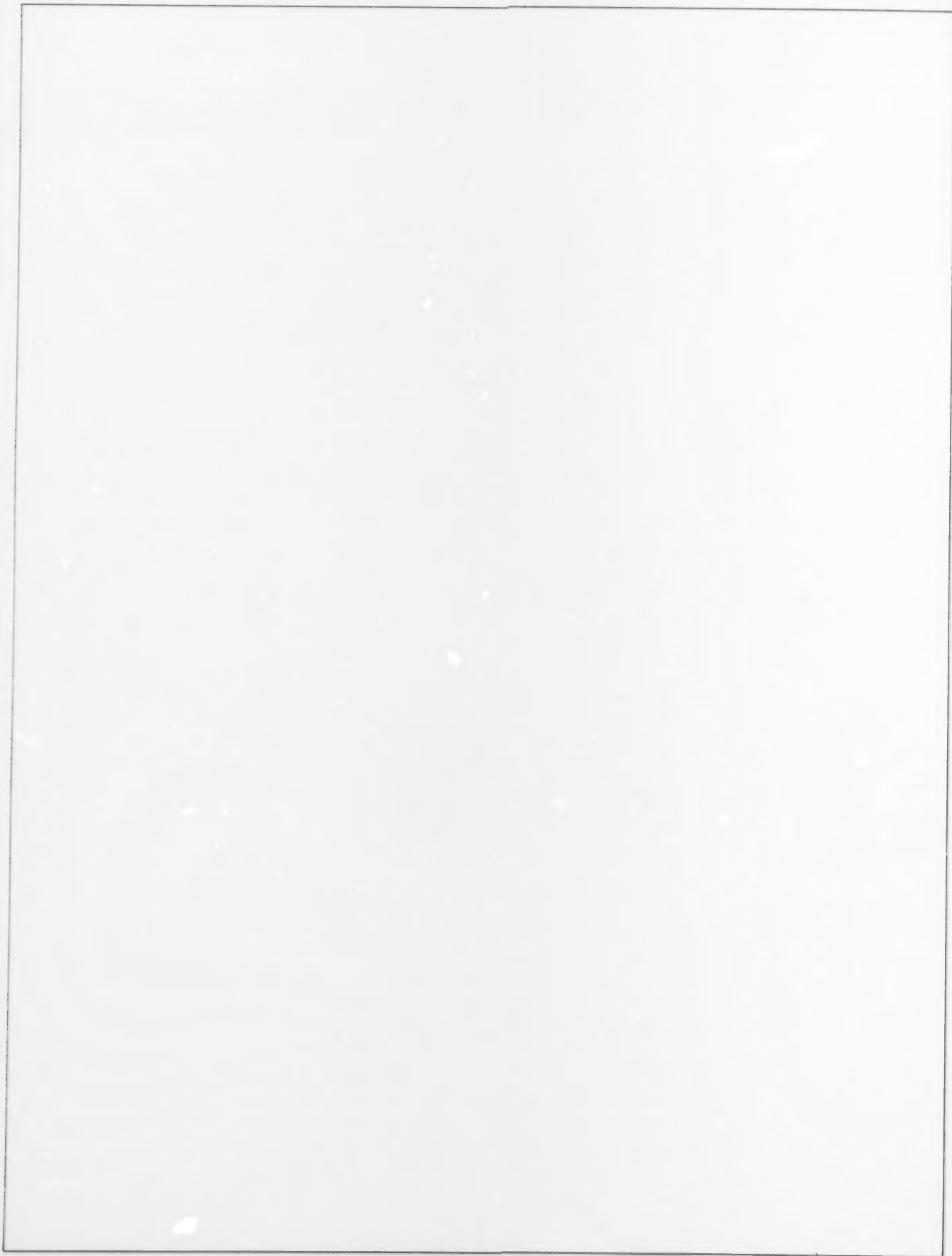
Recommended that all departments and agencies prepare for the Minister responsible and subsequent tabling in the Legislature a detailed annual report on their operational and financial activities, as well, that Treasury Board review this matter and direct all departments and agencies as to the content and filing of annual reports.	See comments Chapter 3 of this Report.	1988	47- 48
		1989	80- 82
		1990	26
Recommendations were made to strengthen the internal audit function for complete accountability and effective financial management and control within all departments of Government relating principally to:	See comments Chapter 2 of this Report.	1988	49- 58
		1989	12- 15
		1990	26
- development and implementation of an overall policy statement;			

Comments on Matters Referred to in Prior Years' Reports

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
- ensuring that a high level of consistent standards exists within the practice of internal audit; - establishing mandates and providing sufficient competent professional staff; - establishing an audit committee of senior executives.		
Several recommendations were made to strengthen controls over the preparation and submission of Public Accounts information from the various departments to the Office of the Comptroller General to assist in eliminating the difficulties presently existing in the timely preparation, completion, audit and tabling of the Public Accounts.	See comments Chapter 3 of this Report.	1989 38- 44
Several recommendations were made to establish greater accountability over transfer payments at the departmental level. We concluded that a department should have sufficient control over its transfer payments so that it can fully discharge its responsibility to the Legislature by being accountable for all its expenditures.	See comments Chapter 3 of this Report.	1989 53 1990 50
Observation that in accordance with the direction of MC 376-'90 steps were taken to ensure that the backlog of audits of cost shared claims were completed on a priority basis.	See comments Chapter 3 of this Report.	1989 83- 85 1990 70- 71

Government Wide Audit Observations

<u>Summary of Previously Reported Recommendations and Observations</u>	<u>Status - at Preparation of 1991 Annual Report</u>	<u>Reference Year Page</u>
Recommendations were made to improve the system of control over the Province's Loan Guarantee Program and ensure the completeness, accuracy and timeliness of the information produced by the system.	The Department of Finance has reported that corrective action has been or will be taken on the implementation of our recommendations.	1990 51- 66
Observed that micro-computer policy and procedures as established in the Government of Newfoundland and Labrador Electronic Data Processing Policy and Procedures Manual did not adequately address a number of areas. Also observed a number of instances of noncompliance with the manual.	A new manual has been issued which addresses our concerns in this area.	1990 86- 91
Recommendation that a framework for reporting on legislative compliance by Crown agencies be established and supported by legislation.	See comments Chapter 2 of this Report.	1990 106-109
Recommendations were made to effect improvements in certain areas of Government's budgetary system.	Treasury Board has agreed to amend policy and procedures to include the majority of our proposals.	1990 77- 84
Recommendations were made to improve compliance with The Public Tender Act, 1984, by Crown agencies.	The various agencies have agreed to strengthen procedures where appropriate to ensure compliance. Our next review in these areas will assess the results.	1990 109-114
Recommendations were made to strengthen the system of financial and operational controls over movable capital assets in several government departments.	The departments have undertaken to strengthen their procedures in this area. Future audits will determine the extent of the improvements and their impact on the overall control system.	1989 72- 80



CHAPTER

7

GENERAL MATTERS AND WORK OF THE AUDIT OFFICE



Chapter 7

General Matters and Work of the Audit Office

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General Matters and Work of the Audit Office

7.1 Operations of the Office of the Auditor General

Independence of the Office

If the opinions, comments and reports of the Auditor General are to be relied upon by all Members of the House of Assembly and other readers, the Office of the Auditor General must be independent of the Government and the officials upon whom it is required to report.

We are pleased to report that the Auditor General Act was given Royal Assent in the House of Assembly on 31 October 1991. This Act provides for the enhancement of the independence and expands the authority of the Office of the Auditor General to enable it to more effectively carry out its responsibilities to the House of Assembly.

Mandate and Goals of the Office

The formal mandate of the Office of the Auditor General has been prescribed in the Auditor General Act and other legislation.

The primary goal of the Office of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable for control and expenditure of public funds by reporting to the Legislature on the administration's stewardship over such public funds.

A secondary goal of the Office is to assist Deputy Ministers and heads of the various Crown corporations, boards, authorities and other bodies, which receive or control public funds, in holding their staff accountable by reporting on the department's or agency's stewardship over such public funds.

The Office of the Auditor General seeks to accomplish these goals by conducting various audits, including attest, compliance, government wide, special and other audits or reviews, by presenting individual audit reports to the heads of the departments or agencies and by presenting Reports to the House of Assembly.

Types of Audit

The Office of the Auditor General under the Auditor General Act and various other legislation, performs attest and legislative compliance audits as well as special audits which may arise from time to time.

Operations of the Office of the Auditor General

Attest audits are designed to support the expression of a professional opinion on the financial statements of a specific entity. Attest audits are conducted in accordance with generally accepted auditing standards. The opinion states whether the results of operations and the financial position of the entity are presented in accordance with stated accounting policies. Legislation may also require that the auditor express his opinion as to whether such policies are consistent with those used in the previous year.

Legislative compliance audits are designed to review compliance with the requirements of The Financial Administration Act, 1973, and other applicable legislation.

Section 12 of the Auditor General Act requires that the Auditor General report on a number of matters, including collections and disbursements of public money, accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities and factors or circumstances relating to an expenditure of public money which should be brought to the attention of the House of Assembly.

Special audits are conducted on specific matters from time to time. Provision is made in section 16 of the Act which permits the Auditor General, at the request of the Lieutenant-Governor in Council or the House of Assembly, or resolution passed by the Public Accounts Committee, to inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

Professional Development and Training

A strong program for ongoing training and professional development of staff is essential to ensure that staff keep current with new auditing techniques used in the profession. This program consists of on-the-job training, in-house courses and seminars provided by other organizations. During the past year, many of our professional staff have attended courses and seminars designed to enhance their knowledge and skill in such areas as accounting, auditing, electronic data processing and personnel management.

General Matters and Work of the Audit Office

We continue to encourage our staff to pursue and complete programs of study which enable them to obtain professional accounting designations. We are pleased to note that during the year one member of our staff obtained the Chartered Accountant designation and four members obtained the Certified Management Accountant designation. We congratulate these graduates and wish continued success to those of our staff now studying towards a professional accounting designation.

Auditor General's Advisory Council

Many complex matters must be considered in the course of our audit of the accounts of the Province. The Office is assisted in this regard by a Committee which serves as the Auditor General's Advisory Council.

We appreciate the contribution made by this Council to the work of our Office.

7.2 Departmental Audits

For information purposes, we have included as Appendix I of this Report a list of Departmental Audits performed by our Office.

7.3 Crown Corporation and Other Audits

In addition to auditing the Public Accounts of the Province of Newfoundland, we are responsible for numerous other audits. These include certain Crown corporations, boards, authorities and sundry funds administered by the Province. These additional audits are listed in Appendix II of this Report.

Our attest audits include Crown corporations, boards, authorities, colleges and commissions. As part of these audits, we express our opinion on the financial statements and, when appropriate, issue a management letter. This letter includes any recommendations we have for improvements and/or draws attention to certain matters which came to our attention during the audit.

The Office also performs compliance audits of various Crown corporations and other entities whose attest audits are performed by private sector auditors. These compliance audits are designed to

Special Reports

review compliance with various legislation and to ensure that the entities have adequate systems of management control in place. The results of these audits are disclosed in this Report. During the year we performed compliance audits of four entities which are included as part of Appendix II of this Report.

7.4

Crown Corporations and Other Entities Audited by Private Sector Auditors

For information purposes, we have included as Appendix III of this Report a list of Crown corporations and other entities whose attest audits were performed by private sector auditors.

7.5

Federal-Provincial Cost Sharing Claims

In addition to our other responsibilities, we were required to audit and report on claims submitted by the Province to the Government of Canada under various Federal-Provincial Cost Sharing Agreements.

In most cases it was our responsibility to ascertain whether the terms of the applicable agreement had been complied with by the various departments and that the amounts claimed by the Province for cost sharing were correct and in accordance with the agreement.

As a result of a review of our mandate, we now report that we no longer conduct audits of Federal-Provincial Cost Sharing Claims. We have informed departments and agencies involved in Federal-Provincial Cost Sharing Agreements that we no longer perform the audits of these claims. To facilitate a smooth transitional process, we agreed to complete the audits of any claims relating to the 31 March 1991 and prior years submitted to our Office by 31 December 1991.

7.6

Special Reports

In addition to auditing the Public Accounts of the Province, the accounts of the various departments and numerous Crown corporations, boards and authorities, this Office is called upon to issue certain special reports from time to time.

General Matters and Work of the Audit Office

In Part 7.8 of our Annual Report to the House of Assembly for the year ended 31 March 1990, we referred to the issuance of our Report on Government's Involvement with Newfoundland Enviroponics Limited.

Our review of Government's involvement with Newfoundland Enviroponics Limited was undertaken as directed by the Lieutenant-Governor in Council in Minute of Council 449-'89, dated 3 June 1989.

Subsequent to the issuance of our report, Cabinet Directive (MC 628-'90), dated 5 April 1990, ordered that *"Under authority of The Public Inquiries Act, a judicial inquiry into the matters raised in the Report of the Auditor General into the affairs of Newfoundland Enviroponics was approved...."*

On 1 July 1990, a commission was established under command of the Registrar General, appointing The Honourable Mr. Justice Seamus O'Regan to be a Commissioner relating to the judicial inquiry.

We now report that, to the date of this report, the Commissioner has not issued his findings on this matter.

7.7 Professional Activities of the Office

Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation was established in 1980 as a national, non-profit organization - an autonomous body devoted to the development of comprehensive auditing. The Foundation was created through the combined efforts of Canadian legislative auditors, senior representatives of leading accounting and management consulting firms, and the internal audit and academic communities. The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience. To meet this objective, the Foundation:

- disseminates comprehensive auditing methodology and designs and organizes professional development programs to promote an understanding of the concept and application of comprehensive auditing; and

Public Accounts Committee

- conducts research and fosters the development of management practices designed to help ensure economy, efficiency and effectiveness in the management of public funds and resources.

The Office of the Auditor General of Newfoundland has been a sustaining member of the Foundation since 1980. This association has provided us with the opportunity to meet with and exchange ideas with our colleagues and other individuals who share a common interest in the most current auditing standards in the public sector. This association is extremely important in helping this Office keep current on accounting and auditing developments and thereby assist the Legislature in the accountability process.

Canadian Conference of Legislative Auditors

The nineteenth annual Conference of Legislative Auditors of Canada was held from August 11 to 13, 1991 in Winnipeg, Manitoba. This conference brought together representatives from all legislative audit offices in Canada and served as a useful forum for the sharing of information and ideas.

This year's conference addressed the areas of rating government bonds, performance reporting by governments, update on the activities of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants and the audit of transfer payment recipients.

We note that representatives from the various Public Accounts Committees in Canada held their thirteenth annual meeting at the same time in Winnipeg. This permitted the representatives of the various Public Accounts Committees to hold a joint session with the Legislative Auditors to discuss deficit spending and the economy.

Next years conferences are scheduled to be held in Fredericton, New Brunswick.

7.8 Public Accounts Committee

Appointment and Composition of the Committee

The Public Accounts Committee is appointed under Standing Order 84(a), (d) of the Standing Orders of the House of Assembly of Newfoundland. The Committee is appointed for the duration of each

General Matters and Work of the Audit Office

Assembly and is comprised of four government members and three opposition members. The Chairman of the Committee is elected from the appointed opposition members and the Vice-Chairman is elected from the appointed government members.

Role of the Committee

The role of the Committee is to assist in holding the government, including Crown corporations and other agencies, accountable to the Legislature for the administration of public assets and spending of public funds. This is performed by holding hearings and reporting upon matters contained in the Public Accounts of the Province and the Annual Report of the Auditor General.

Committee Procedures and Operations

Most Committee meetings deal with assessing the legality and prudence of government expenditures and the establishment of proper administration policies and procedures in government departments and Crown agencies.

At meetings dealing with government departments, the Deputy Minister, usually accompanied by senior officials, answers questions raised by Committee members. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

The Committee usually conducts its public meetings when the Legislature is not in session. Meetings to hear evidence and to obtain information are generally open to the public. Meetings held to determine the Committee's agenda and to prepare the annual report are held in-camera.

During the past year the Committee has held several public hearings and a number of in-camera meetings to deal with matters raised in the 1990 Report of the Auditor General.

APPENDICES



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Appendix I

**Departmental Audits
Performed By The
Auditor General**

Consolidated Fund Services

Legislature

Executive Council

Finance

Works, Services and Transportation

Development

Mines and Energy

Fisheries

Forestry and Agriculture

Environment and Lands

Education

Social Services

Health

Employment and Labour Relations

Municipal and Provincial Affairs

Justice

Newfoundland and Labrador Housing
Corporation

Public Service Commission

Appendix II

**Attest and Compliance
Audits of Crown
Corporations and
Other Entities
Performed by the
Auditor General*****Attest Audits***

Alcohol and Drug Dependency Commission

Avalon Community College

Bell Island Hospital Building Corporation
Limited

B.L.C. Building Corporation Limited

Cabot Institute of Applied Arts and Technology

Canada Games Park Commission

C.A. Pippy Park Commission

Central Community College

Corner Brook Hospital Buildings Corporation
Limited

Eastern Community College

Economic Council of Newfoundland and Labrador

Economic Recovery Commission

Farm Development Loan Board

Fisher Institute of Applied Arts and Technology

Fisheries Loan Board of Newfoundland

Gander Hospital Corporation Limited

Grace Hospital Extension Corporation Limited

Heritage Foundation of Newfoundland and
Labrador

**Attest and Compliance Audits of Crown
Corporations and Other Entities Performed
by the Auditor General**

Hotel Buildings Limited

Labrador Community College

Livestock Owners Compensation Board

Newfoundland and Labrador Arts Council

Newfoundland and Labrador Housing Corporation

Newfoundland and Labrador Institute of
Fisheries and Marine Technology

Newfoundland and Labrador Youth Advisory Council

Newfoundland Crop Insurance Agency

Newfoundland Farm Products Corporation

Newfoundland Government Sinking Fund

Newfoundland Industrial Development Corporation

Newfoundland Legal Aid Commission

Newfoundland Liquor Corporation

Newfoundland Liquor Licensing Board

Newfoundland Medical Care Commission

Newfoundland Municipal Financing Corporation

Northern Hospitals Building Corporation Limited

Pepperrell Hospital Reconstruction Corporation Limited

Power Distribution District of Newfoundland and
Labrador

Appendix II

Province of Newfoundland Pooled Pension Fund

Provincial Advisory Council on the Status of
Women -Newfoundland and Labrador

Provincial Public Libraries Board

Public Accountants Licensing Board

Registrar of the Supreme Court of Newfoundland

Rural Development Authority

St. John's Infirmary Building Corporation
Limited

School Insurance Committee

Technical College Building Corporation Limited

Western Community College

Compliance Audits

The Auditor General's authority and responsibility under the Auditor General Act and other acts to audit and report on controls over public funds require that he satisfy himself respecting the control of such public funds by all Crown corporations, agencies or any other entities which receive, hold or expend such funds whether or not the Auditor General is the auditor of the financial statements of such entities.

During the past year we performed compliance audits of the following entities which have their attest audit performed by private sector auditors.

Western Integrated School Board

Roman Catholic School Board for St. John's

Sir Thomas Roddick Hospital

The General Hospital Corporation
- Health Sciences Centre

Appendix III

**Crown Corporations
and Other Entities
Audited by Private
Sector Auditors**

Board of Commissioners of Public Utilities
Churchill Falls (Labrador) Corporation Limited
Enterprise Newfoundland and Labrador Corporation
Lower Churchill Development Corporation Limited
Marystown Shipyard Limited
Memorial University of Newfoundland
Newfoundland and Labrador Computer Services Limited
Newfoundland and Labrador Hydro Corporation
Newfoundland Cancer Treatment and Research Foundation
Newfoundland Hardwoods Limited
Workers' Compensation Commission

This listing of Crown Corporations, Boards and Authorities is based on financial statements presented in the *"Accounts of Crown Corporations, Boards and Authorities"* for 1990 and on a listing of Boards, Commissions, Corporations and Other Bodies prepared by Cabinet Secretariat as at March 1991.

In addition to this listing, the majority of the Province's hospitals, which are created by separate legislation or under The Hospitals Act, are Crown agencies which are audited by private sector auditors.

Appendix IV

**The Financial
Administration Act,
1973, Part V**

The Financial Administration Act, 1973, Part V includes sections 54 to 57, which provide for the preparation and tabling of the Public Accounts of the Province. These sections read as follows:

Public Accounts

54. The accounts of the province shall be kept in the Department of Finance by double entry, under the general direction of the Comptroller General, who shall maintain an accounting system to show, among other things

- (a) the current state of the Consolidated Revenue Fund;
- (b) the revenues and expenditures of the current fiscal year;
- (c) the commitments for the current fiscal year chargeable against each Head of Expenditure; and
- (d) the charges expended under Section 22 from the Consolidated Revenue Fund.

55. (1) The Comptroller General shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

- (a) the state of the public debt;
- (b) the revenue and expenditure;
- (c) all compromises, remissions, refunds and amounts written-off; and
- (d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year.

The Financial Administration Act, 1973, Part V

56. The Minister shall lay the Public Accounts before the House of Assembly on or before the thirty-first day of January in the following year if the Legislature is then in session, and, if it is not, then within one week after the commencement of the next ensuing session of the Legislature.

57. The Board may alter the period at or within which any public officer, corporation or institution is required to render any account or to make any return, whenever in the opinion of the Board the alteration will facilitate the correct preparation of the statement of the Public Accounts to be submitted to the House of Assembly or of the annual estimates.

Note: When the Auditor General Act was given Royal Assent on 31 October 1991, sections 58 through 71 of The Financial Administration Act, 1973 were repealed.

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Auditor General Act

1. This Act may be cited as the *Auditor General Act*.

2. (1) In this Act

- (a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,
 - (i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or
 - (ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;
- (b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;
- (c) "auditor general" means the Auditor General of Newfoundland appointed under section 4;
- (d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;
- (e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having
 - (i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or
 - (ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;
- (f) "office" means the Office of the Auditor General established under section 3; and

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- (g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes
- (i) all revenues of the province,
 - (ii) money borrowed by the province or received through the issue and sale of securities, and
 - (iii) money paid to the province for a special purpose.

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in *The Financial Administration Act, 1973*.

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The Auditor General holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

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(2) Once having served as Auditor General, a person is not eligible for re-appointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

- (a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act*; and
- (b) take or make and sign the following oath or affirmation of office:

"I, ..., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

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11. The auditor general shall examine the several financial statements required by *The Financial Administration Act, 1973* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

- (a) the work of the office;
- (b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;
- (c) the results of the auditor general's examination of the financial statements referred to in section 11; and
- (d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

- (a) collections of public money
 - (i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,
 - (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts;

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- (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, or relevant Act,
 - (ii) have not complied with regulations, directives or orders applicable to those disbursements,
 - (iii) have not been properly reflected in the accounts, or
 - (iv) have not been made for the purposes for which it was appropriated;
 - (c) accounts have not been faithfully and properly kept;
 - (d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
 - (e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or
 - (f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

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14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

- (a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;
- (b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and
- (c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

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(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

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(2) In order to compel the attendance of a person under subsection (1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of *The Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code*.

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

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23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) *The Conflict of Interest Act, 1973* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

- (a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act*; and
- (b) take or make and sign the following oath or affirmation of office;

"I, ..., do swear (or solemnly, sincerely and truly, declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

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(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the Lieutenant-Governor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to *The Public Tender Act, 1984*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the

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exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

- (a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or
- (b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office,

the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of

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Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under *The Financial Administration Act, 1973* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of *The Financial Administration Act, 1973* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;"

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".